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LIQUIDATION OF STX DALIAN

Will the Shipyard Be Presented to China Free of Charge?

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Ordinary Wage, Extraordinary Burden

Supreme Court's Ruling on Ordinary Wage Expected to Put Business Circles on Red Alert



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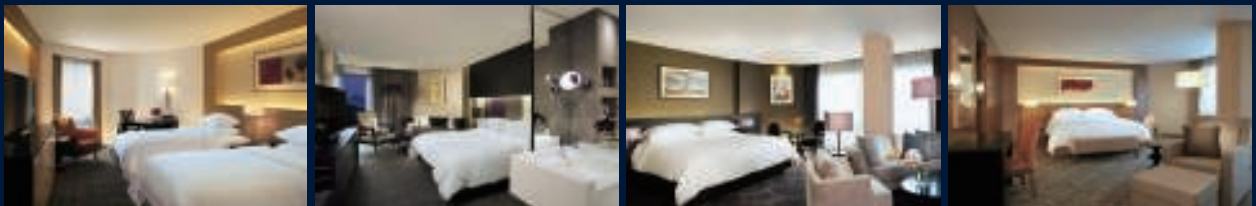


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Ordinary Wages Ruling Can Be an Opportunity

The Supreme Court finally delivered its ruling that regular and fixed bonuses are to be included in the scope of ordinary wages, even when the cycle of payment is over one month. The scope of ordinary wages had been the key issue surrounding many conflicts between management and labor, because it could not only make a lot of differences in overtime pay, but also could be the basis for severance payment calculations. No less than 160 lawsuits are pending with regards to the

issue. This time, the court decidedly took the labor world's side.

Although the standard has been made clear, the repercussions and aftereffects have not yet been seen. Employers are on red alert, as they have to deal with skyrocketing wage payments. The financial circles are estimating that companies will have a burden of more than 13 trillion won (US\$12.2 billion) in extra wages due to the ruling, but the actual amount may be far beyond that estimate. The problem is even graver for small and mid-size enterprises with less financial resources. It is said that approximately 10% of them will have to shut down their businesses. A lot of companies are planning on a cut in employment to avoid shutting down, which will only serve to exacerbate the already serious unemployment problem.

Another concern is a contraction in business activities. Even big businesses with sizable cash reserves will have to reduce their R&D expenditures and investments when their additional costs reach several trillion won. They might even find it more profitable to relocate their businesses abroad, as the case may be.

The most urgent actions needed are to minimize the impact. All of the interested parties need to gather their wisdom to drastically change the current wage payment system. In fact, it is the employers, at least in part, that brought the trouble to begin with. They reduced base pay to the minimum, while increasing the allowances for long hours of labor for less payment. This has resulted in employees doing the same work over a longer period of time, which caused, in turn, the employers cutting overtime allowances further. Korea's labor productivity, which is just half of those of advanced economies, has much to do with the distorted wage structure. The base pay needs to be increased while the benefits are reduced so as to minimize overtime work.

The recent Supreme Court ruling can be a valuable opportunity for labor and management alike. If they meet halfway and achieve a compromise, they will be able to enjoy higher productivity and enhanced competitiveness. Labor disputes and high costs have been two of the major roadblocks to foreign investment attraction, and a few foreign companies are about to reduce their presence in the country due to these exact reasons. Measures are needed so that the ruling can lead to a better wage structure and productivity enhancement.

Park Jung-hwan,
 Publisher & Editor-in-Chief

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AIR DEFENSE ZONE BATTLE

China's Declaration of New Air Defense Zone Increasing Tensions in Region

China's on November 23 declared air defense zone now includes Ieodo, about 149 kilometers southwest of Korea's southernmost island of Marado. Ieodo is a submerged sea mount with a platform built upon it. China has rejected South Korea's demand to redraw the air defense zone declared newly on November 23. South Korea raised the issue as a priority during the annual defense strategy talks with China in Seoul on November 28.



China's new zone overlaps South Korea's own air defense zone, in a move certain to escalate the row between the two countries and fuel rising tensions in the region.

Vice Defense Minister Baek Seung-joo expressed strong regret to his counterpart Wang Guanzhong, deputy chief of the general staff of China's military, demanding Beijing to take corrective measures. Ministry spokesperson Kim Min-seok confirmed the situation by saying, "China's response was that it decided not to accept the demand."

Baek also told China that South Korea is also considering expanding its own air defense zone in order to "safeguard our national interests," pointing out that countries in the region should hold discussions to promote trust and reduce tensions.

"We made it clear that we cannot recognize the Chinese unilateral measure and that our jurisdiction over waters around Ieodo won't be affected regardless of the setting of air defense identification zones by neighboring countries," the spokesperson.

The Chinese zone also overlaps the

Japanese defense zone. The Japanese zone includes a set of islands known as Diaoyu in China and Senkaku in Japan, which are at the center of territorial disputes between Beijing and Tokyo.

The Chinese declaration also raised concerns of a clash with the United States, since the zone includes Japanese islands that the United States has used as firing ranges. The US sent a clear message to China that it won't recognize the declared zone by flying a pair of B-52 bombers through the zone on November 26.

Despite the Chinese declaration, South Korea has also been continuing routine patrol flights over Ieodo without notifying Beijing. Instead, the government will consider expanding the zone to include Ieodo, about 149 kilometers southwest of Korea's southernmost island of Marado, according to Defense Minister Kim Kwan-jin on November 26.

South Korea Announces Expansion of Its Air Defense Zone

Responding to the Beijing's declaration, Seoul on December 8 announced

its new South Korean Air Defense Identification Zone (KADIZ) that includes the submerged rock of Ieodo and areas south of the two islands of Marado and Hongdo.

This is the first time for the KADIZ to be expanded in 62 years after its initial establishment in March 1951 by the US Pacific Air Forces to foil Chinese air strikes during the Korean War (1950-53).

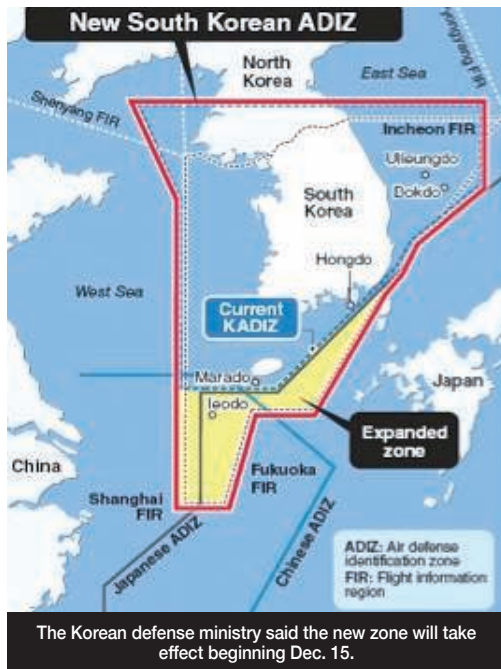
In particular, Seoul's move is aimed at countering Beijing's unilateral declaration of its own Air Defense and Identification Zone (ADIZ) on November 23 that overlaps with KADIZ's southern end of Jeju Island and also includes airspace over the South Korea-controlled Ieodo.



Defense Ministry spokesperson Kim Min-seok announces the new South Korean Air Defense Identification Zone in the briefing room of the Ministry of National Defense on December 8.

The new Korean Air Defense Identification Zone will be expanded into the yellow-colored area.

The Korean government has said that it won't recognize the declared Chinese zone and has flown aircraft through it. Seoul has also prepared to expand its own air zone after Beijing refused to reconsider its decision when the two sides held high-level defense



talks last week.

“The air defense and identification zone adjustment is in line with the international aviation order and international regulations,” the ministry said, adding, “It does not put any restriction on civilian flights or infringe upon the airspace and interests of neighboring countries.”

“Before this announcement today, we offered sufficient explanations to related countries,” the ministry said. “The government will discuss with them necessary measures to prevent accidental military clashes within the newly adjusted air defense and identification zone,” it added.

Beijing’s declaration of the new ADIZ was interpreted as

a measure to counter US efforts to increase its influence in the region under US President Barack Obama’s Asia Pivot policy. The US has raised serious concerns and said it won’t recognize the Chinese declaration.

The issue was a key topic for US Vice President Joe Biden during his recent trip to Japan, China, and South Korea. His talks with Chinese President Xi Jinping did not bring about any understanding to calm the issue.

On December 6, Biden had talks with Korean President Park Geun-hye. When Park outlined Korea’s position on the issue, Biden said he “appreciated President Park’s explanation and South Korea’s efforts.”

CHINA'S ADIZ DECLARATION

Aiming for Marine Strategy Established 30 Years Ago



China's first aircraft carrier, the Liaoning. China has tried to set up the “First Island Chain” linking Okinawa, Taiwan, and the South China Sea for dominance in the region.

It has been pointed out that the real purpose of China’s recent declaration of the air defense identification zone (ADIZ) is the “First Island Chain” linking Okinawa, Taiwan, and the South China Sea, which is highly important for China’s marine strategy, rather than the Diaoyudao Islands or oil fields in the East China Sea.

Hong Kong-based weekly magazine Yezhou Zhoukan reported on November 30 that China’s declaration of the ADIZ in the East China Sea was made after very careful considerations on the part of the Chinese government, and is a significant strategic breakthrough. According to the report, President of the People’s Republic of China and

Chairman of the Central Military Commission Xi Jinping took counsel from a lot of experts before making the decision himself to bring the issue to the level of strategic conflict from that of the surrounding natural resources.

Until recently, China focused on the Diaoyudao Islands and the oil and gas fields in the East China Sea. However, according to the magazine, it has shifted its focus to the Miyako Strait and the First Island Chain by declaring the ADIZ. If the Chinese navy takes possession of the strait, it can navigate beyond the First Island Chain without any interference from Japan to aim for the Second Island Chain of Saipan, Guam and Indonesia.

TRAP OF ORDINARY WAGES

Recent Supreme Court Ruling Putting Business Circles on Red Alert



The recent Supreme Court ruling relating to the expanded scope of ordinary wages is stirring the economic community in the form of labor-management disputes, reduction in investment, and employment shrinkages. Korean enterprises, which are already concerned over mounting uncertainties, are about to be additionally burdened with the ordinary wages risk, finding it inevitable to redo their business plans for next year. In particular, major business groups in the automobile, shipbuilding, and steel industries, where overtime and holiday work is much more frequent than in others, are supposed to reflect the increments in night work, holiday work, and overtime allowances right away.

Companies have followed the government's policy, not including regular bonuses in the ordinary wage, for the

past 25 years, and, as such, they are quite shocked at the ruling. The Korean government came up with its guidelines for ordinary wage calculations in 1988 in the framework of the Labor Standards Act, and the industries have excluded bonuses from the ordinary wage since then in labor-management negotiations.

However, the talks have become invalid for the Supreme Court ruling delivered on December 19 to see regular bonuses as a part of the ordinary wage. In the Ministry of Employment & Labor's June survey on 978 businesses with 100 or more employees, just 19.4% of the respondents answered that they included their regular bonuses in the ordinary wage. This means that most of the companies in Korea will have to revise their collective agreements. The scope of various statutory

allowances based on the ordinary wage and when to begin to apply the new ruling depend on labor negotiations at each company.

More Labor-management Disputes and Less Employment Predicted

"The judgment is likely to result in some chaos, only to exacerbate the conflict between management and workers," said an entrepreneur, adding, "My company is currently recalculating the increment in labor costs based on the judgment, and our employment as well as investment plans for next year have become uncertain due to this ambush of ordinary wages."

An increasing number of companies are reshaping their wage structures to minimize the additional burden of labor costs. Meanwhile, the labor world is trying to expand the ordinary wage while maintaining current pay structures. Besides, they have opposite opinions as to the retroactive application of the ruling, signaling that a series of lawsuits will follow over time.

The intensifying conflict and increase in labor costs are forecast to lead to declining investment and less room for employment. The Korea Economic Research Institute (KERI), an organization associated with the Federation of Korean Industries (FKI), is predicting that the employment rate will be cut by at least 1% in the near future.

At the same time, an exodus of foreign companies in Korea is likely to accelerate for the same reason. "It seems that GM Korea and many other foreign enterprises will move to other countries to avoid the high-cost and

low-efficiency economic structure in Korea,” said the FKI.

Economic Organizations Voicing Severe Concerns

Local economic organizations have expressed concerns with one voice since the Supreme Court ruling. For example, KERI mentioned the expansion of ordinary wages as the biggest challenge faced by the entire industrial community, while predicting that a drastic cut in investment would follow, as many of them will prepare reserve funds against potential lawsuits. It also explained that the ruling will have the negative impacts of manufacturing automation, plant relocation, and labor force reduction in the long term.

The institute added that the judgment could cast a damper on economic recovery signals that had been expected next year. “The expansion of the scope of ordinary wages means higher labor costs, slower investment, and increased product prices, which, in turn, will affect the export, import, and foreign investment sides altogether,” said Byeon Yang-kyu, head of KERI’s Division of Macroeconomic Policy Research. He went on, “Previously, we thought that the investment by major conglomerates in the manufacturing sector will lead economic growth next year, but if things turn out wrong, the growth rate could be cut by 0.2% to 0.3%.”

He also pointed out the possibility of wage divides among workers. “It is expected that the full-time employees of big businesses, who are paid with more bonuses and do more overtime work, will benefit the most from the ruling,

and thus the wage gap among workers can be widened,” he explained.

The Korea Employers Federation (KEF) complained about the ruling, saying that between 710,000 and 800,000 jobs would disappear for five years to come, too. “The administrative interpretation that continued for a quarter of a century has been overridden to give rise to a severe confusion,” it mentioned, “Although it is a fortunate thing that we do not have to make an additional payment for the past three years, the expression of significant business difficulties is very ambiguous and can cause more disputes down the road.” According to KEF’s estimates, the ruling generates 13.7509 trillion won (US\$12.9533 billion) of burden for the first year and then 8.8663 trillion won (US\$8.3521 billion), excluding the 4.8846 trillion won (US\$4.6013 billion) increment in severance and retirement benefits, each year from then on. The amount of 13.7509 trillion won is equivalent to 8.9% of the investment promised by the 30 major business groups in Korea for this year.

The Korea Chamber of Commerce & Industry (KCCI) echoed by saying that the ruling is likely to lead to greater pressure on the management side and affect employment.

It is small and mid-size enterprises (SMEs) with weaker financing capabilities that are more shocked by the ruling than anyone else.


“Many companies will lose their trust in Korea’s legal system due to the ruling amid a huge confusion,” the Korea Federation of SMEs emphasized, “Countermeasures must be prepared so that the additional cost burden is not

shifted from big businesses to small firms.” The federation is forecasting that each SME should pay 14.3 trillion won (US\$13.5 billion) more in a lump sum and 3.4 trillion won (US\$3.2 billion) every year if regular bonuses are included in the scope of ordinary wages.

In the meantime, Minister of Trade, Industry and Energy Yun Sang-jik joined a breakfast meeting held at the KCCI on December 19 and remarked that he also thinks of the ruling as a factor that could strain SMEs in Korea. “Still, I also think that we have avoided an extreme situation, thanks to the principle of good faith, that is, the restriction on the retroactive claim for additional payments,” he said. “What we need now is close cooperation between labor and management to achieve a better and simplified wage system.”

Adjustment of Wage Structures Needed Urgently

Those in the economic circles agree to the necessity of a simplified pay structure, too. “Companies have to shoulder a very large sum of additional costs due to the ruling, and we will seek to deal with the problem by reshaping the pay structures,” said the KEF.

“In the Korean economy, it is becoming increasingly difficult to use manpower without renovating the wage structure, and this is why we need to simplify the structure while increasing the correlation between work and reward,” another source explained. “We may be relatively freer from the ordinary wages issue if we adopt an annual pay system in which the overtime, night work, and holiday work allowances are combined.” 

POTENTIAL TROUBLES

“Principle of Good Faith” Likely to Cause Continuing Legal Disputes



The Supreme Court ruled that a retroactive request is not acceptable, since it is unjust and in breach of the principle of good faith.

The Supreme Court stated on December 18 that wages paid for one's work are regarded as ordinary wages provided that the payment is made on a "regular, uniform, and fixed basis." The court added, "Regular bonuses are considered to be ordinary wages on the condition that those bonuses are paid regularly and uniformly despite the difference in wages based on seniority." However, it ruled that performance-based bonuses are not included in regular wages.

The court said that benefits, including bonuses for New Year's Day, Chuseok, and vacations, are not deemed to be ordinary wages if paid to those working in the company at the time of disbursement. It also stressed that any previous labor-management agreements to exclude bonuses from ordinary wages are invalid, since the agreements are in violation of the Labor Standards Act.

Nevertheless, the Supreme Court ruled, "Employees shall not retroactively demand the difference in overtime pay as additional wages, in the event that the demand itself causes an unexpected increase in spending for their company, and thus gives the firm financial difficulty. In that case, the request

is not acceptable, since it is unjust, and it is in breach of the principle of good faith." The ruling can be interpreted as the court's consideration of the implications for the employer's financial burden.

Despite the court's decision, legal disputes between labor and management are likely to continue, since the court can decide whether or not a certain wage claim engenders financial problems for business. Those working in the company without precedent for the exclusion agreement can demand the difference, but only three years of differences in overtime pay are acknowledged.

Meanwhile, the Korean government announced, "The Supreme Court ruling should serve as an opportunity to revamp the controversial ordinary wage system in a future-oriented and reasonable manner." The announcement was made during a ministerial level meeting between the Ministry of Strategy and Finance (MOSF), the Ministry of Trade, Industry and Energy (MOTIE), the Ministry of Employment and Labor (MOEL), and the Small and Medium Business Administration (SMBA), held immediately after the court's decision.

Employment and Labor Minister

Phang Ha-nam said, "The current wage system, which is unfavorable in the age of limitless competition, reduces our economic competitiveness, and makes investment and employment difficult. The minister added, "We will come up with measures to improve the system by reflecting the effects of those measures on our economy, labor-management agreements, and basic principles."

Lim Moo-song, Director General of the Manpower Policy Bureau at MOEL pointed out, "We will make standards for an overhaul of our wage system before wage negotiations swing into high gear next spring."

The government already made guidelines to revamp the system after discussing the matter for nearly half a year in meetings of the Wage Reform Committee.

Once a revision to the Labor Standard Act is made, comprehensive ways to reform the system will be discussed at the Special Committee on Wage and Working Hours within the Economic and Social Development Commission. But the problem is that representatives of labor and management can reach an agreement at all. So far, labor unions have never participated in committee meetings.

In line with the government's plan to change the overall system, companies also appear to be eager to simplify their wage payment systems. In particular, firms that provide low wages and high benefits to their workers seem to be willing to remove many types of bonuses, or incorporate those bonuses into wages. If that happens, the controversy surrounding regular wages are likely to subside. OK

RESPONSES FROM POLITICAL CIRCLE

Concern over Corporate Burdens vs. Urge on Follow-up Measures

The ruling Saenuri party and oppositions offer different perspectives on the Supreme Court ruling

The ruling party voiced concern over Supreme Court's decision that regular bonuses are a part of "ordinary wages," insisting that the decision puts an increasing burden on business. The party also requested both labor and management to work together to reorganize the current wage structure through communication and cooperation. But opposition parties welcomed the decision, urging the National Assembly to take further actions to put an end to possible ongoing conflicts.

The ruling party's floor leader Choi Kyoung-hwan said, "We hoped that the Supreme Court's decision would put a stop to the ongoing controversy, but the conflict is far from over, still leaving embers of new splits and conflicts to all the parties involved including the Congress, the government, labor and management."

The floor leader added, "The Supreme Court's ruling will be somewhat helpful for labor, but it worries me that the decision will increase corporate burdens and constrict their investments, dampening job growth and even leading to the loss of current jobs." He also said, "I am afraid this will bring about another series of conflicts between labor and management."

In particular, he stressed, "Now is the time the triumvirate of labor, management, and government must put together their wisdom." He went on to say, "Based on the ruling's spirit, the government must take swift actions to modify related laws and regulations, which has been dragging along for a



Choi Kyoung-hwan,
the ruling party's
floor leader.



Kim Ki-hyun, the
ruling party's chief
policymaker.



Jeon Byeong-heon,
the major opposition
Democratic Party's
floor leader.



Cheon Ho-sun, the
minor opposition
Justice Party's head.

long time. Congress must be bi-partisan and should not use this issue for their own political interests."

The ruling party's supreme council member Sim Jae-cheol said, "The controversy on wage structure is over, as the principle has been laid down. But there are some issues that cause concerns over corporate burdens and deter vitalization of the economy." He added, "This is to be welcomed in terms of securing labor's rights, but it puts more difficulties on investments and employments by small and medium sized businesses, to which the government must pay close attention."

He also said, "I hope that this landmark decision will be a turning point for labor and management to have understanding of and give concessions to each other by both taking a step back."

The ruling party's chief policymaker Kim Ki-hyun also said, "With this ruling, it becomes a very critical task that both sides work together to iron out a win-win wage system through active communications and discussions with an open mind." He then went on, "This decision must be used as momentum to fundamentally review the complex wage

setting system and modify the legal infrastructure."

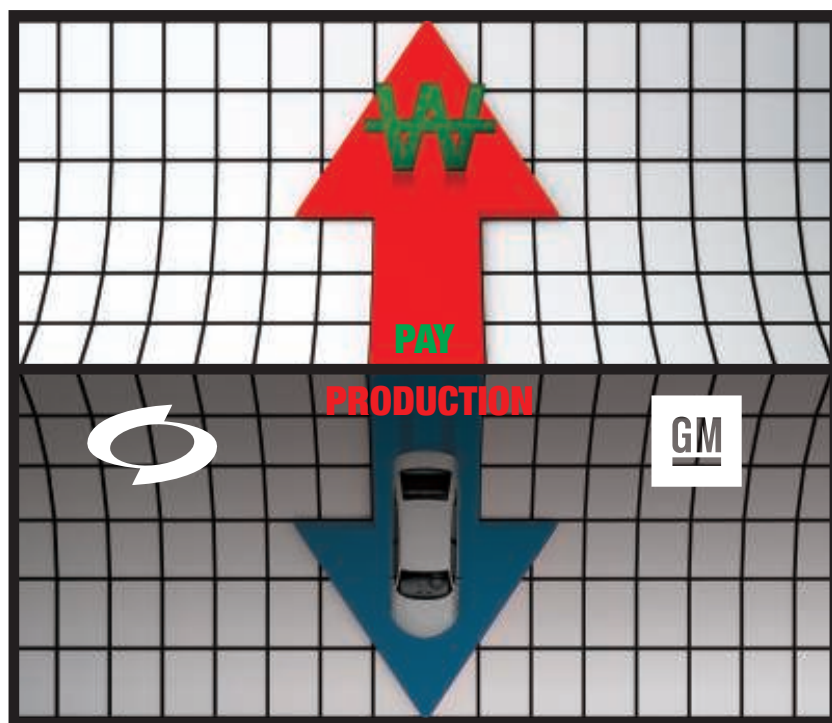
Opposition parties welcomed this ruling and called for additional actions by the National Assembly.

The major opposition Democratic Party's floor leader Jeon Byeong-heon said, "The Supreme Court's decision is only a beginning. Our party's role becomes more important in terms of pursuing further actions." Then he said, "The smoke of confusion caused by President Park has been cleared, putting the conflict to an end. But our party must continue our role as a watchdog to prevent unnecessary controversy. We will be watchfully engaged in the legislation process with our party's policy committee involved."

The minor opposition Justice Party's head Cheon Ho-sun said on a standing committee, "There is nothing new about this decision, simply reflecting common sense." He stressed, "It is regrettable that the decision left a lot to be disputed, as there is a gray area in which businesses can be exempted from paying unpaid ordinary wages in the case that there is a serious managerial crisis or the corporate existence itself is threatened." **BK**

ORDINARY WAGE TIMEBOMB

Will Ordinary Wage Issue Accelerate Exodus of Automakers from Korea?



The Supreme Court ruled that a regular bonus is considered to be ordinary wages, but money for employee welfare such as vacation bonuses are not, because these are not considered as money paid for labor. The court added that overtime and severance pay cannot be claimed later when an employee and his or her company agree with each other to exclude the regular bonus from the ordinary wage.

On December 18, the Supreme Court referred to two cases between KB Autotech and its 296 employees back to the Daejeon High Court. The appeals for retirement allowances and wage payments were filed by the latter against the auto parts manufacturer. The plaintiffs won the original trial.

The ruling implies that the local automobile industry cannot avoid a hit with regards to the ordinary wage issue. In par-

ticular, GM Korea and KB Autotech are likely to go through at least some losses in the near future, as they have lawsuits raised by labor unions and employees that are about to be handled in the Supreme Court.

Under the circumstances, the possibility of production cut by foreign automakers in Korea is rising. Their potential exodus is likely to be accelerated down the road, given the current situation in which the manufacturing facilities in Korea have been characterized by high cost for years. For example, after the labor union of GM Korea won its first and second trials on ordinary wages, the company had to remit 814 billion won (US\$769 million) of contingent labor costs in advance, which resulted in 340.3 billion won (US\$321 million) in operating losses last year in spite of the record sales.

GM Korea is estimating that it will have an additional burden of 1.2 trillion won (US\$1.1 billion) for the past three years, due to the Supreme Court ruling that the regular bonus be included in the ordinary wage. The amount is estimated to be over 300 billion won (US\$283 million) in the first year, given that 16,000 employees are working for it now. In order to mitigate the burden, the company has to prove that it is a factor causing significant difficulties in business.

GM recently decided to shut down its Chevrolet business in Europe, causing the export volume of GM Korea to be cut by 180,000 units a year. Further production cuts may follow if the labor cost burden is added to the situation. In fact, GM Chairman and CEO Dan Akerson said back in May, during his meeting with President Park Geun-hye, that he can invest in Korea only after the ordinary wage issue is properly dealt with. The automaker is planning to build four more plants in China by 2015, with a combined annual capacity of 500,000 cars, to take the place of GM Korea's manufacturing facilities from 2016, when GM Korea's exports to Europe have stopped.

Renault Samsung Motors is facing a similar challenge, that is, ordinary wage lawsuits of its own. "The wage level is much higher in Korea than in other countries," said Renault Group Vice Chairman Jerome Stoll during his recent visit to Korea, adding, "Then, we have no option but to assign more cars to more competitive plants out of Korea."

The story is not that different for Ssangyong Motors, whose largest shareholder is the Mahindra Group of India. Although the company has no ordinary wage lawsuits going on, the shareholder is likely to feel greater burdens with time, because overtime pay can be increased. ■



**WORLD
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KOREA

제 90기

코이카 봉사단원 모집

모집기간 2013. 12. 16(월) ~ 12. 24(화)

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EXECUTION OF NORTH UNCLE

Will Jang's Execution Bring About Stability or Chaos?



Jang Song-thaek, North Korea's second most powerful man and the uncle of leader Kim Jong-un, is shown with his hands tied with a rope at a special military tribunal in Pyongyang on December 12, 2013.

The aftermath of the execution of Jang Sung-thaek, the North's second most powerful man and leader Kim Jong-un's uncle, is drawing a lot of attention.

Jang, who served as vice chairman of the powerful National Defense Commission, was executed on December 12 right after a military trial ruled his guilt of "anti-party, counter-revolutionary factional acts," according to the North's official media, the Korean Central News Agency (KCNA) in an English dispatch.

"The tribunal examined Jang's crimes. All the crimes committed by the accused were proved over the course of the hearing and were admitted to by him," the Agency said, adding, "Jang did those acts to overthrow the leadership of our party and state and the socialist system." The KCNA said Jang admitted during the hearing that he attempted a coup targeting the "comrade supreme leader."

The execution came four days after Jang was arrested and hauled out of a Workers Party Politburo meeting.

In the mean time, China said on December 13 that it wants "stability" on the Korean Peninsula after the North announced the execution of Jang.

"As a friendly neighbor, we hope to see national stability, economic development and people living in happiness in the Democratic People's Republic of Korea (DPRK)," China's foreign ministry spokesman Hong Lei said at a regular news briefing. He added, "The execution of Jang is an internal affair of the DPRK," as he commented in the same manner when he did at Jang's purge.

However, China's state-run Global Times reported on December 13 that Beijing may consider imposing "some restrictions" on its relations with Pyongyang.

"The majority of the public here holds a negative attitude toward the recent happenings in Pyongyang," China's state newspaper said in an editorial.

Pyongyang's relations with Beijing

are also expected to be impacted because Jang had many connections in China.

Sources familiar with the issue said that North Korean businessmen in China have been summoned back to their country in large numbers since Jung's execution. The businessmen worked in the northeastern Chinese cities of Shenyang and Dandong to facilitate trade between the two countries and attract Chinese investment in North Korea.

Another source said that North Korea plans to summon all of its officials and staff from China in stages, adding, "Those classified as having connections to Jang will never be able to go abroad again and will be purged."

Experts in Seoul said the swiftly-carried-out execution is seen as the regime's attempt to strengthen its leadership and to show strength, but it could bring further instability to the regime while the young leader's reign of terror is expected to continue.

They also said that Kim may have eliminated the greatest threat to his rule, but he also exposed the instability of his power base.

Yun Duk-min, a professor at the Korea National Diplomatic Academy, said that he doubts the stability of the Kim regime given the North's recent rapid changes in power structure, which could weaken Kim's own power base and lead to internal chaos.

Nam Sung-wook at Korea University pointed out that nation founder Kim Il-sung and his son Kim Jong-il also eliminated their rivals "but never organized rallies to denounce them" as Kim Jong-un is doing. He said this demonstrates a "weakened power base" for the young leader. **OK**

KOREA'S RESPONSIBILITY

“Korea to Be Responsible for Growth of Developing Countries”



World Bank Group President Jim Yong (center) with KCCI Vice Chairman Lee Dong-keun (third from the right), Daelim Industrial Vice Chairman Kim Yoon (left), Hyundai Group Chairwoman Hyeon Jeong-eun (third from left), and others.

World Bank Group President Jim Yong said on December 3 that South Korea should feel responsible for the hope of people around the world admiring its miraculous economic growth. He also mentioned that he is willing to provide assistance for North Korea if it shows a sign of change in its national politics and nuclear programs.

He participated in a special lecture session hosted by the Korea Chamber of Commerce and Industry held at Grand Hyatt Hotel Seoul on that day, and said, “South Korea used to be a country having a lower per-capita GDP than Ghana and relying upon aid from the OECD-DAC. But it is now in possession of the fourth-largest number of patents in the world.” He went on, “I

feel very proud of my country’s rapid economic growth and would like to ask its government and enterprises to be more interested in the growth of less-developed nations.”

He put a particular emphasis on the African continent, stressing that the region has unlimited potential as was the case with South Korea in the mid-20th century. “After the end of the Korean War, the majority of economic theory books concluded that the South had no hope due to the shadow of the war. The Philippines rather than South Korea was deemed to be more promising because of the use of the English language,” he explained. Going on, “These days, development economists seem to apply the same theory in pre-

dicting the future of Africa, but I am convinced that the future of Africa is more than bright, which I have felt since my first visit to the continent.”

He continued, “Congo, Rwanda, Mali, and other countries own a huge amount of precious natural resources even though regional conflicts are going on, and Burkina Faso has continued a 6% economic growth for years, paying six to seven times the global average in electric charges.”

He also added, “I have talked a lot with United Nations Security General Ban Ki-moon, and I am willing to provide assistance for North Korea with the World Bank, the Asia Development Bank, and the like, if a political breakthrough is in sight.”

PRESENCE OF GLOBAL ORGANIZATIONS

GCF Secretariat, World Bank Open Korean Office in Songdo



President Park Geun-hye cuts tape to open the GCF Secretariat in G Tower in Songdo, Incheon City. From left to right: Hwang Woo-yeo, Hyun Oh-seok, Park Geun-hye, H  la Cheikhrouhou, Jose Maria Clemente Sarte Salceda, and Jim Yong.

On December 4, the Green Climate Fund (GCF) Secretariat was opened in Songdo, Incheon City, along with the Korean office of the World Bank. The purpose is to share Korea's economic growth experience with developing nations and increase its international standing as a development aid provider.

President Park Geun-hye participated in the GCF Secretariat opening ceremony held at the G Tower which started off with a ribbon-cutting ceremony. President Park was accompanied in the ribbon-cutting ceremony by Hwang Woo-yeo, head of the current majority Saenuri Party; Hyun Oh-seok, vice prime minister and financial minister; H  la Cheikhrouhou, Secretary General of the GCF; Jose Maria Clemente Sarte Salceda, co-chairman of the GCF; and

Jim Yong, president of the World Bank.

President Park also delivered a congratulatory speech, in which she said, "My country, which has selected a response to climate change as one of its key policy goals and has moved ahead with various plans to serve the purpose, will put forth more efforts so that less-developed countries can better deal with climate change and the GCF can settle down and develop itself successfully." She continued by saying, "We will present an innovative economic development model in which climate change is utilized as an opportunity to create a new growth momentum beyond a passive response."

Financed by advanced economies, the GCF is expected to play a pivotal role to help less-developed nations take a greater part in the negotiations for car-

bon emissions reduction. In addition, it is going to overcome the limitations of existing environmental funds in terms of the scale and business scope of the funds.

The Korean office of the World Bank was opened in Songdo on the same day. The office has a significant symbolic meaning in that Korea has grown itself into a major development aid provider from a country that used to rely upon such assistance.

"Korea has inspired a lot of developing countries with its excellent economic growth experience," said World Bank president Jim Yong, adding, "Korea and my organization will continue working together with each other for joint prosperity and the eradication of absolute poverty in the public and private sectors alike." 

AIRCRAFT EXPORT TO IRAQ

Korea to Export 24 FA-50 Trainer Aircraft Worth US\$1.1 B. to Iraq



The T-50 was chosen as a trainer aircraft for future F-16 pilots.

Korea Aerospace Industries (KAI) signed a US\$1.1 billion deal to export 24 FA-50 light attackers to Iraq, which is the largest-ever export in the defense industry's history.

KAI unveiled on December 12 (local time) that Iraqi Prime Minister Nouri al-Maliki and KAI Chairman Ha Sung-yong signed a US\$1.1 billion contract in the Office of the Prime Minister in Baghdad, Iraq, comprising the export of 24 T-50 aircraft and pilot training over the next 20 years. KAI and the Iraqi government also are set to sign another US\$1 billion deal to provide follow-up military support over the next 25 years, which makes the combined export reach a US\$2.1 billion value.

The FA-50, serving as a light attacker and trainer aircraft, is a variant of the T-50 Golden Eagle supersonic trainer that was co-developed by KAI and Lockheed Martin, replacing the F-5 class aircraft operated by the Korean Air Force.

When Prime Minister Nouri al-Mali-

ki visited Korea in April 2011, Chairman Ha introduced locally-made aircraft focusing on the T-50 class, and entered formal negotiations with Iraq. Since then, the FA-50 has fiercely competed with the Hawk-128 by British defense contractor BAE Systems, the Yak-130 by Yakovlev of Russia, and the L-159 by Aero Vodochody of the Czech Republic. Korea dispatched its peace and reconstruction army Zaytun Division to Iraq in 2004, building more friendly relations between the two countries, which also helped KAI to win the contract.

The Iraqi version of the FA-50, named the T-50 IQ, is armed with air-to-air missiles, air-to-surface missiles, and machine guns, as well as precision-guided bombs, both joint direct-attack munitions and censure-fused weapons.


The deal came after Iraq last year signed a new contract to buy its second set of 18 F-16 fighters from Lockheed Martin, part of a deal to purchase 36 of the jets to rebuild its air force. "The T-50

was chosen as a trainer aircraft for fostering pilots of the F-16," said an official at KAI.

With delivery scheduled between 2015 and 2016, the Iraqi air force aims to use the Korean-made aircraft to train its pilots and conduct light attack missions, KAI said.

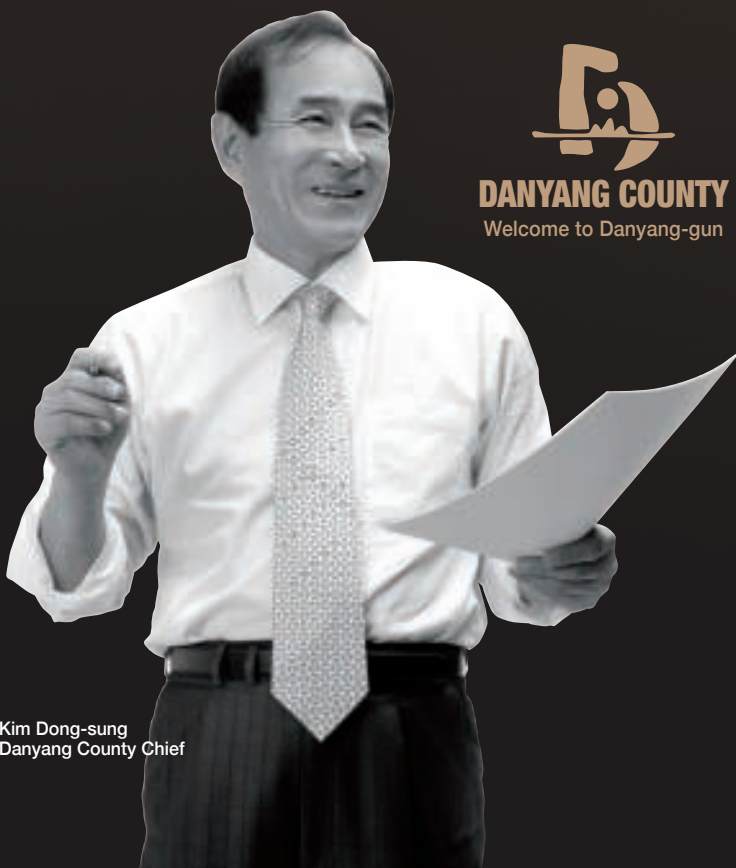
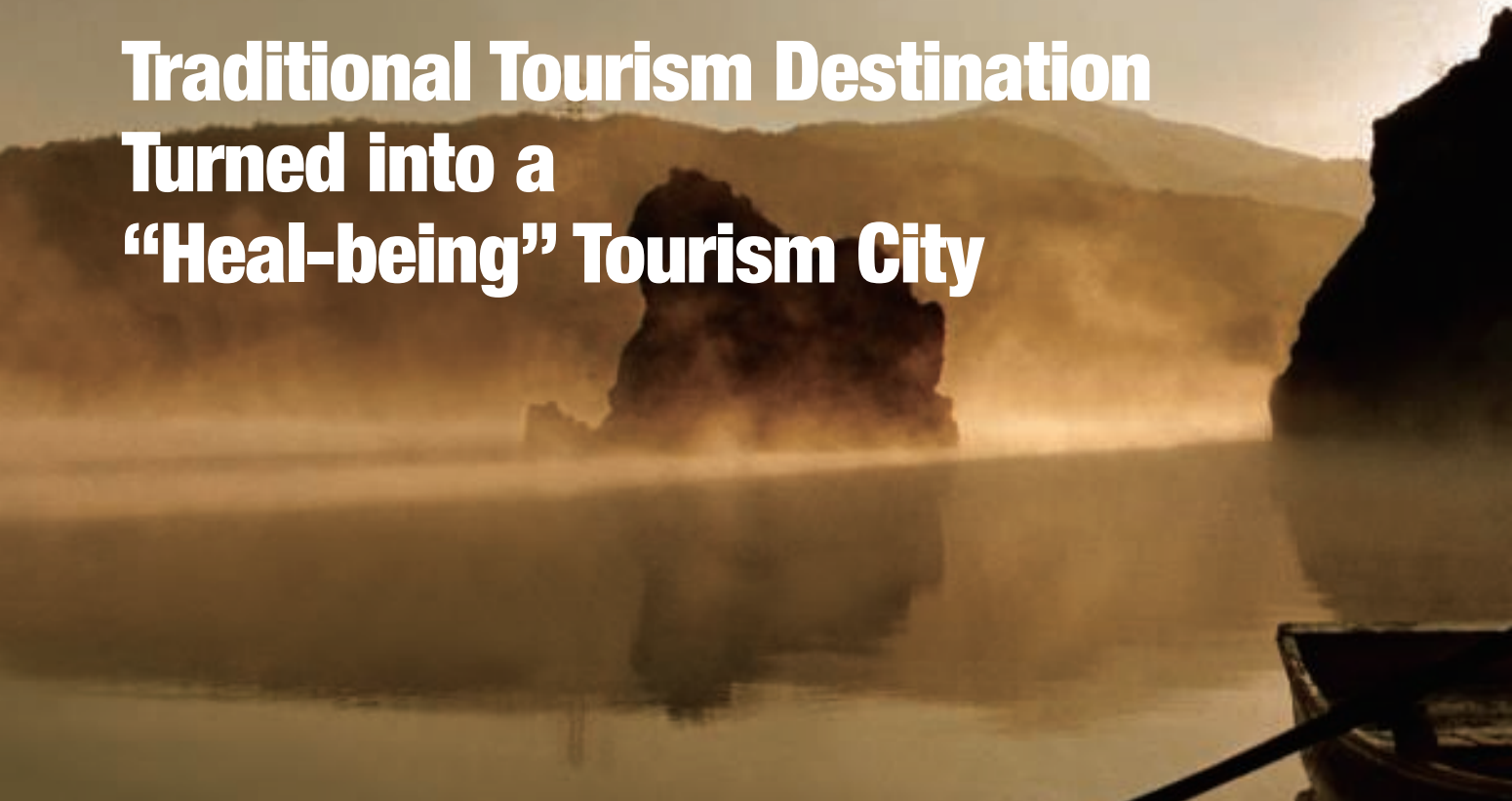
While KAI has sold T-50 variants to Indonesia, Turkey, and Peru, the sales of the FA-50 marks the first time for Korea to export the light attacker overseas.

In October, the Philippine government signed a memorandum of understanding for 12 FA-50 fighters worth US\$450 million. While a final contract was expected within this year, it has been delayed, as the Southeast Asian nation is grappling with the aftermath of Typhoon Haiyan.

KAI is seeking to export the T-50 family of jets to the Philippines, Peru, and Botswana, while eyeing the US Air Force's T-38 replacement program next year. 

DANYANG COUNTY

Traditional Tourism Destination Turned into a “Heal-being” Tourism City



Danyang is traditionally well known for its “Danyang Pal Gyeong,” or Eight Beautiful Sceneries. By continuing to shore up its tourism infrastructure and successfully launching tourism promotion campaigns, Danyang County has won various prizes and awards in the tourism sector from the central government and public organizations, boosting Danyang’s brand value as a major tourist destination in Korea.

The county also strives to promote the local culture and arts by holding various festivals and performances, while preserving the cultural heritage of the region. In addition, Considering environment is a critical asset for its future, the county has launched various ecological projects which contribute greatly to both environmental protection and regional development at the same time.

All in all, Danyang County has now succeeded in turning itself into an eco-friendly heal-being city. At the center of this change has been County Chief Kim Dong-sung, with whom BusinessKorea had an exclusive interview to hear about what he has done for the county. What follows are some excerpts from the interview with him.

Kim Dong-sung
Danyang County Chief



The fifth popularly-elected county government in Danyang is in its final stage now. Your catchphrase has been the happiness of all people, which shares the same thread as that of the central government. Please explain your major accomplishments up to this moment.

This year, my county had some hard times due to the lingering economic uncertainties both at home and abroad. However, all of the county government officials, including myself, have strived hard to deal with the situation while following the central government's new vision of Governance 3.0 and improved local autonomy. At the same time, all of us did our utmost to keep our Seven Promises for County Residents.

Danyang won a series of awards in the tourism sector as well, including the popularity award of My Country Travel

Fair 2013, the grand prize in the Healing and Well-being City Segment of the Korea's Most Beloved Brand Awards and the highest prize of the Tourism Promotion Policy Awards. These prizes have boosted Danyang's brand value while cementing its national standing as a major tourist destination.

Also, the county opened the Gowungol Nature Learning Center and launched various projects for ecological stream restoration and more efficient operation of the Gadae Ecological Wetlands, all of which have contributed greatly to environmental protection and regional development at the same time. The efforts brought us the highest prize in the environmental conservation segment of Eco-Expo Korea 2013, awarded by the Ministry of Environment.

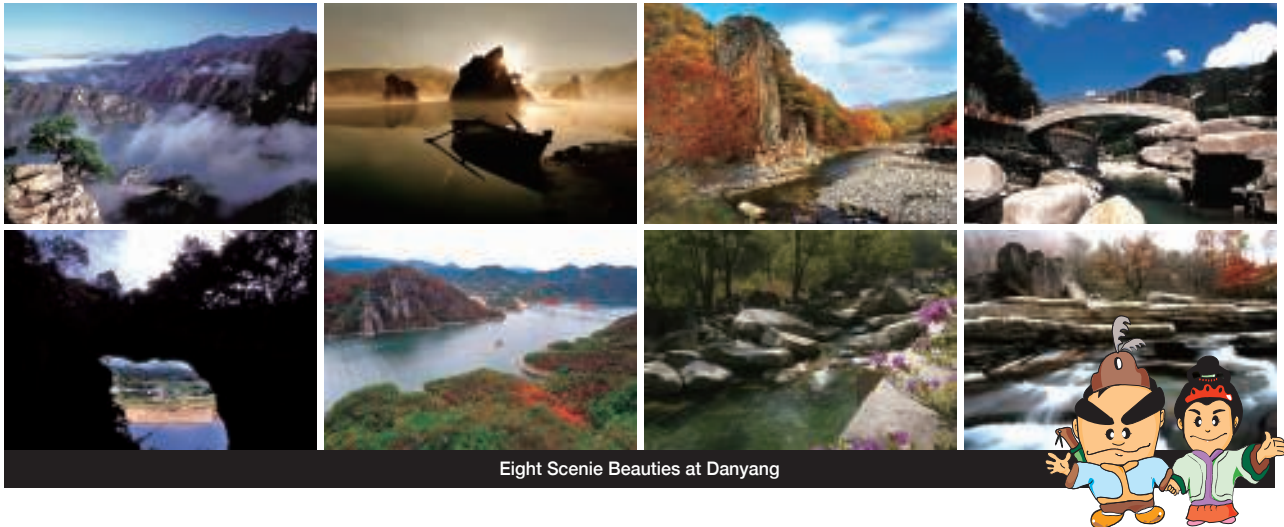
In addition, it successfully played host to the very first Aronia Festival this

year, so that the crop can become our new growth engine for the future. The Aronia Processing Center is in smooth operation now and we will continue making efforts so that Danyang remains the center of the industry.

You have implemented welfare policies oriented toward public participation, such as the Danyang County Resident Welfare Exhibition. Please tell us about the most important aspects of the exhibition. And could you introduce some examples of the county's unique welfare policy?

The Danyang County Resident Welfare Exhibition, which took place on November 8 in Danyang Naru Park, was attended by over 2,000 people.

Under the slogan of Eight Colors of Happiness for Happier Danyang, a total of 46 social welfare organizations in the region set up 57 booths to provide various



Eight Scenic Beauties at Danyang

information and hands-on events. The fair celebrated its fourth anniversary this year, presenting about 60 programs under the four themes of sharing, communication, harmony, and learning.

In particular, 888 people shared a harmonious meal in the Bibimbap Making Event. Eight citizen autonomy centers showed off their dances, songs, craftworks, baking techniques, and many more during the self-autonomy program presentations to win the applause of the audience. Plus, a large number of people were very interested in the hands-on booth of the aquatic ecology expert group that obtained an excellence award at the second Korea Life-long Education Fair.

The Job Café, in the meantime, provided useful job placement consulting for senior citizens and other unemployed persons as well, along with participatory events for nail art, cooking, bead craft, soap making, boating, and so on. A variety of mulberry paper works, multicultural costumes, traditional straw craftworks, and calligraphy were put on display to add colors to the exhibition, too.

Danyang County has moved ahead with 107 subprojects in seven fields to provide tailored welfare services in tandem with private entities in the local community. Also, it has made great efforts to reach out to underprivileged households. An annual average of 1,743 surveys and follow-up policy programs are underway in the region for in-depth fact finding and on-site consultation and to prevent any misuse of the welfare budget.

Danyang is well known for its Eight Beautiful Sceneries and other abundant tourism resources. How many tourists visited the county in 2012 and 2013?

My county has continued to shore up its tourism infrastructure in spite of the adverse economic conditions since the financial crisis in 2008, consistently working on differentiated tourism content. As a result, the number of tourists visiting Danyang has kept rising and the number is expected to amount to 9.6 million by the end of this year.

Danyang recently signed a cooperation agreement with KORAIL in an effort to provide leisure-centered, high-quality programs for tourists seeking healing and wellness. The Naeillo ticket and train trip program and the Danyang Tourist Train have been particularly well received by many people along with the Stamp Tour and Familiarization Tour programs, tourism information sessions, the Theme Tourism Promotion Fair, etc.

It also attracted TV programs such as the MBC Pop Song Best, Two-day Trip and Go! Dream Team of KBS for greater appeal to more sightseers. In the Ondal Open Set, movies and TV dramas such as the Dream of the Great King and Cruel Palace-War of Flowers were filmed here, so that the county can emerge as a new favorite location of the general public.

Danyang is aiming to turn itself into a “heal-being” tourism city and eco-friendly green city to raise the living standards of the residents and enhance its competitiveness. What are

some specific projects that have been kicked off to serve the purpose?

We have strived to promote the local culture and arts while preserving the cultural heritage of the region and holding various festivals and performances. The Sobaek Mountain Royal Azalea Festival, the Ondal Cultural Festival, and the Korea Folk Art Festival are three of the leading examples. In fierce competition among local governments, Danyang has successfully launched tourism promotion marketing campaigns to win the prizes and awards mentioned above, and become one of the most favored tourist destinations in Korea.

The Gowungol Nature Learning Center was opened this year as stated above for the creation of an eco-friendly “heal-being” city, and the Maepo Ecological Stream was restored for the same purpose. In order to remove any bad atmosphere, it has conducted waste ingredient analyses, inspections, and sampling, and held discussion sessions with business in the local community, too. It also kicked off a campaign to collect used cell phones for the more effective recycling of natural resources, which was rated in the highest group in the central government’s assessment.

Moreover, the Danyang County Food Culture Research Center was established to develop the local food and herbs, which resulted in a silver prize at the 17th Native Food Competition hosted by North Chungcheong Province. The county government also focused on the improvement of food-related services in

the region with great success.

What are the examples of Danyang's specialties and cash crops? What is the county doing to globalize them and to help the households increase their profits?

Danyang has nurtured highly-educated farmers and launched various projects for competitive enhancement of our farmers under the goal of welfare through profit increases, so that they can better cope with the Korea-China FTA and the competition in the industry which is sure to be intensified as a result of it.

It invested one billion won (US\$951,249) in 2012 and again in 2013 to support local farming households, and is planning to increase the amount of the investment to 10 billion over time. In order to promote the growth of green farming, it is going to continue the establishment of an eco-friendly rice production complex, while providing organic farming materials, direct sales events, and certifications for environmentally-friendly agricultural crops.

Moreover, it will transfer technologies for high-profit crops by setting up a black chokeberry cultivation complex and expanding the support infrastructure such as crop processing plants. We are expecting that an increasing number of households will be engaged in the cultivation of such profitable crops.

The joint business corporations of the villages will lead efforts to improve agricultural product distribution systems so that farming households do not have to be

worried about the sale of their products. More direct sales will be available with time in connection with direct outlets and sisterhood organizations in major cities.

The Danyang Aronia Village will add to the value of the agricultural products based on aronia, while contributing to job creation and an increase in the profits of farming households. Furthermore, we will develop new tourism products by making use of aronia, in which both the residents and general consumers can participate.

Unlike many other local governments in Korea, Danyang is well known for its zero liabilities, and its integrated financial index showed a surplus of 2.4 billion won (US\$2.2 million). How is that possible?

Last year, Danyang County repaid all of its municipal bonds, amounting to 19.2 billion won (US\$18.2 million). At first, we were planning to redeem 5.4 billion won by 2011 and handle the rest by 2016. However, we opted for early redemption with the financial soundness issue emerging on the central and local government level due to the financial crisis in Europe and the problems of the over-issue of municipal bonds appearing in some local governments like Taebaek City, Incheon City, and Yongin City.

For that purpose, the county reduced the increment in the local grant tax and operating costs to the minimum, and could additionally raise the 13.5 billion for repayment.

All of this was because of the consid-

eration on the part of local government officials. I believe that the county government will be able to be run on a sounder groundwork in the future thanks to the kind considerations.


The popularity of Danyang as a hands-on agricultural tourism destination is on the rise, and more and more urban dwellers are looking to settle in the county. What is the background and what might be the examples of the support policy for them?

Environment is a very important asset for our future. Danyang, in order to remain a clean city, is trying to become the best green city in Korea by setting up eco-friendly villages.

Specifically, it has run a carbon point system for low-carbon green growth while further developing the Gowungol Ecological Park located near the Namhan River. The ecological stream restoration projects have been launched in this context, too. At the same time, it has made great efforts to supply more city gas and other green energy resources while nurturing green villages.

The waterworks improvement projects and potable water improvement projects have been underway to supply cleaner water, along with those for the development of living water for farming and fishing households. The districts prone to natural disasters have been under special management, and the streams were maintained well so that the county can be free from disasters.

In addition, the county is providing subsidies, training programs, and hands-on events for those who want to come back from urban areas to live here. Also provided in this vein is information on empty houses and farmlands.

Each household can be subsidized with up to 200 million won (US\$190,249) at an interest rate of 3%, which is to be repaid in 10 years with a five-year grace period, along with housing subsidies of up to 40 million won (US\$38,040). Various programs are available for farming job training, and mentors are also ready to support better living here. 



Danyang Danuri Center

KOREAN ECONOMY

Deepening Reliance on Foreign Trade



Dusk falls over cargo containers stacked 3-high at Busan Harbour Cargo Terminal. Imports and exports constitute 33.7% of the total national economy. (Photo by Eastberliner via Wikimedia Commons)

Korea's imports and exports represent more than 30% of the total economy. With the dependence of the world's 13th-largest economy on external trade growing more, the influence of external factors is likely to be getting bigger.

According to the Input-Output Tables for 2011 published by the Bank of Korea (BOK) on November 22, the nation's aggregate supply of goods and services posted 4.1262 quadrillion won (US\$3.8 trillion) in 2011, a year-on-year increase of 10.5%. Imports and exports increased for the 2nd straight year, constituting 33.7% of the total monetary supply, up 0.8% from a year ago. The corresponding figures for 2008, 2009, and 2010 were 34.1%, 31.8%, and 32.9%, respectively.


Exports grew 1.5% year-on-year to reach 36.6% in 2011, but the same year

experienced a 0.8% decrease in consumption (44.3%), and a 0.6% drop in investment (19.1%). 2011 also saw the growing reliance on the manufacturing industry. The manufacturing sector comprised 52.2% of the industrial structure (calculated by subtracting imports from total supply), a 2% year-on-year gain. In contrast, the service industry was down 1.2% year over year, accounting for 36.5% of the total.

Meanwhile, trade conditions in October 2013 were reported to be the best, affected by an increase in exports. According to the International Trade Indices and Terms of Trade for October released by BOK, the terms of trade index recorded 122.6 last month (2010 = 100), a 12.2% year-on-year increase. The October figure has been the highest since the introduction of the index in 2010. If a country's terms of trade are

high (more than 100%), the value of the country's exports is higher than that of its imports.

The export price index hit 137.4, up 8.8% from a year ago, the highest since 2010. Among export items, communications & audio-visual devices, transport equipment, and textiles & leather goods inched up 30.7%, 17.7%, and 16.3% each. The import price index posted 117.3, a year-on-year increase of 10.5%, which is the highest level. Specifically, the import of machine tools, coal & oil products, and textiles & leather products gained 42.8%, 22.4%, and 20.7%, respectively.

The net barter terms of trade index, calculated as the proportion of the export unit value indexes to those of the import, rose 3.2% from the previous year to record 89.2, a continuing upward trend for the eighth month in a row. 

BUBBLED PERSONAL INCOME

Per-capita GNI of Korea Expected to Top US\$24,000 Due to Strong Won

It is predicted that Korea's per-capita GNI will exceed US\$24,000 this year for the first time in its history, 18 years after the US\$10,000 mark was surpassed. However, not a few experts are saying that the growth has little to do with people's living standards and earnings equality, because it can be mainly attributed to a drop in the foreign exchange rate.

The per-capita GNI is forecast to amount to US\$24,044 this year. It topped US\$10,000 in 1995 to reach US\$11,735 and exceeded US\$20,000 in 2007, when the amount added up to US\$21,632. However, the per-capita GNI dipped below US\$20,000 in 2008 and 2009 due to the global financial crisis before regaining the US\$20,000 mark in 2010.

Under the circumstances, much attention is being paid to when Korea will be able to reach a per-capita GNI of US\$30,000 and US\$40,000. As of last year, only nine countries with over 10 million population recorded a per-capita GNI of US\$40,000 or more, including the United States, Japan, Germany, France, Canada, and Australia.




Korean shoppers buy in bulk at one of the nation's many Costco stores, with much the same budget this year as last.

lia. They took an average of 9.6 years and 5.6 years to get to US\$30,000 from US\$20,000 and to US\$40,000 from US\$30,000. Economists are forecasting that Korea will be joining them between 2016 and 2017, or in 2020 or later depending on the economic situation.

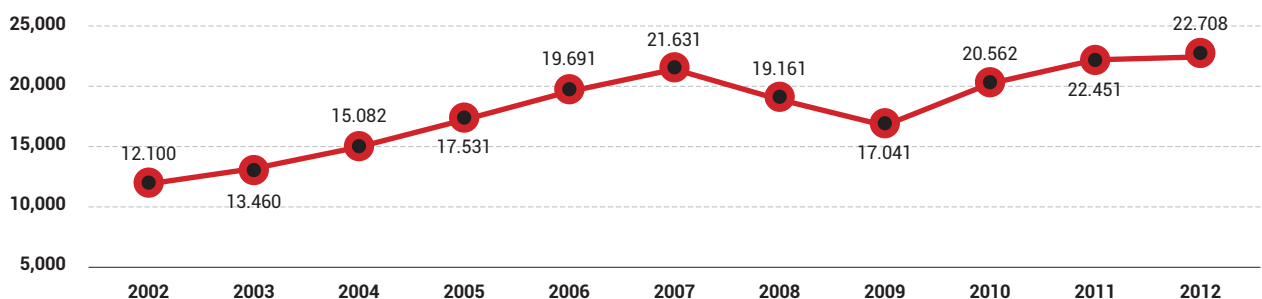
"If the potential economic growth rate remains over 4% by dint of productivity enhancement, economic structural advancement, and a balance between domestic consumption and export, the figure is likely to exceed US\$30,000 in 2017," said Kim Dong-ryeol, senior research analyst at Hyundai Research Institute. He added that the aging of the population and the low total fertility rate

of 1.2 could affect income growth.

In the meantime, it has been pointed out that the record-high per-capita GNI is not leading at all to any improvement in living standards since the income growth is based on the drop in the won-dollar rate. The exchange rate fell from 1,102 won to 1,095 won between 2012 and the first 10 months of this year, which has resulted in the increase in the dollar-based GNI.

"Of the per-capita GNI growth for this year, the GDP effect and foreign exchange effect account for 3.3% and 2.9%, respectively," LG Economic Research Institute researcher Lee Keuntae explained. 

THE TREND OF GROSS NATIONAL INCOME (GNI) PER CAPITA (UNIT: US\$1,000)



※Data: The Bank of Korea

STRONG WON

Exchange Losses of Top 10 Conglomerates Reach 760B Won



South Korea's top 10 business groups reportedly have lost nearly 800 billion won (US\$754 million) this year owing to a strong won. As a result, there is growing concern that a continuing downward trend in exchange rate may hamper the nation's economic recovery on account of exporters' worsening profitability.


According to data on profits and losses in currency exchange compiled by chaebul.com on November 25, net foreign exchange losses of 83 listed affiliates of the country's top 10 conglomerates (state-owned enterprises and financial companies excluded) amounted to 760 billion won (US\$725 million) from January to September in 2013. Those subsidiaries earned 15.993 trillion won (US\$15.080 billion), but lost 16.753 trillion won (US\$15.797 billion) because of the drop in the exchange rate. Considering that net foreign exchange gains of the top 10 business groups totaled 957 billion won (US\$902

million) during the same period last year, their losses actually ballooned to 1.7170 trillion won (US\$1.6190 billion) within a year.

Among the top 10 conglomerates, Samsung Group saw its net foreign exchange losses increasing from 171 billion won (US\$161 million) last year to 289 billion won (US\$273 million) this year. Hyundai Motor Group witnessed 244 billion won (US\$230 million) of its net foreign exchange gains in 2012 being reversed to 219 billion won (US\$206 million) of losses in 2013.

SK Group and LG Group were not exceptions. SK's 118 billion won (US\$111 million) in net foreign exchange gains in the cited period turned into 201 billion won (US\$189 million) of losses in the period, while LG hopelessly watched 90 billion won (US\$85 million) in profits last year convert into 282 billion won (US\$266 million) in losses this year. Hyundai

Heavy Industries is the only company to post 96 billion won (US\$90 million) of gains in 2013 from 1 billion won (US\$942,907) of net foreign exchange losses in 2012.

In particular, Samsung Electronics' net foreign-exchange losses more than doubled within one year, recording 271 billion won (US\$255 million) this year from 132.3 billion won (US\$124 million) last year. The company's losses in January-September 2013 were the biggest among 83 listed subsidiaries. LG Electronics suffered the next biggest losses (258.8 billion won, US\$), followed by SK Hynix (141.8 billion won, US\$133 million), Hyundai Motors (94.9 billion won, US\$89.5 million), SK Innovation (49.8 billion won, US\$47.0 million), Hyundai Engineering & Construction (46.6 billion won, US\$43.9 million), Hyundai Mobis (42.7 billion won, US\$40.2 million), and Samsung SDI (40.7 billion won, US\$38.4 million). 

CENTRAL BANK'S STANCE ON BITCOIN

BOK Governor Doubts Chance of Bitcoin's Development into Non-legal Tender



Korea's central bank has kept a negative stance about bitcoin's development into non-legal currency.

The top official of Korea's central bank expressed doubts about the possibility of bitcoins developing into non-legal currency.

The Bank of Korea (BOK) Governor Kim Choong-soo on December 12 said at a press conference that although it is hard to talk about the future of bitcoins, it may be difficult for bitcoins to develop into non-legal tender, given its limited acceptability. He added that it is questionable to see bitcoins as currency due to its high volatility.

The BOK is preparing to write a report on whether bitcoin can become a means of payment and settlement, but it has kept a negative stance about such a possibility.

Earlier, Korbit, Korea's biggest bitcoin marketplace, issued a statement warning that the government should be wary of falling behind the curve with bitcoins.

The warning was a direct response to a statement released by Korea's financial authorities. The Ministry of Strategy

and Finance, the Bank of Korea Financial Services Commission, and Financial Supervisory Service announced on December 5 that they would monitor bitcoin trade, closely watching for money laundering and any illegal activities infringing on real name transactions, after concluding that bitcoins did not qualify as legitimate financial products.

Korbit Director Kim Jin-hwa said in his comments on Korbit's Facebook page, "Bitcoin's success is owed to creativity and innovation. It has nothing to do with the government's endorsement or nurturing policies."

He also said, "Korea cannot take a back seat and ignore the changes that are sweeping the globe. The government must work together closely with the private sector to not fall behind in keeping up with the global innovative trend, and provide a platform for constructive discussion for such paradigm-changing issues."

The virtual currency Bitcoin is rapidly spreading throughout the world as a

digital alternative to hard currency.


It has, however, downsides such as unstable value and being used for black market money laundering, just to name a few. As such, Germany is considering taxing the bitcoin and France's central bank has warned against the use of bitcoins due to its high volatility. China recently banned financial institutions from engaging in bitcoin trade. Korea's financial authorities have taken a similar tack, putting restrictions on bitcoin trade.

Kim said, "It is important to discuss bitcoins' legitimacy and the rules governing its trade. However, it is also important to utilize the new trend from an industrial perspective." He urged financial authorities by saying, "Balanced and constructive discussions are needed."

Currently about 20,000 online and offline stores around the world accept bitcoins as digital money.

Bitcoins are very useful, in particular, for international transactions due to low fees. In addition, bitcoins can nurture the software industry as smart devices like the iPhone have brought about the development of various software applications.

There are no stores in Korea that accept bitcoins except Korbit, which was established in April this year, specifically to facilitate trading in bitcoins. Bitcoins are only used for investment purposes, not for the trade of goods.

Under such circumstances, a Paris Baguette in Incheon City started to accept bitcoins and developed a tablet application for bitcoin settlement. A floor salesperson said, "Although we use the application, there are not many customers who pay with bitcoins, because we started the service very recently." 

JAPANESE CAPITAL

Japanese Lenders' Penetration of Korean Market Posing Severe Concerns



During the 1997 financial crisis Japanese capital began to make inroads into Korea in earnest. At that time, Korea had no interest rate ceiling in place. A&O Credit, the predecessor of Rush & Cash, entered the Korean market in 1999 and took some substantial profits by means of an annual lending rate of over 130%.

Japanese capital rush into the Korean market has been even more accelerated since the 2008 global financial crisis. This is because there have been more opportunities to take over insolvent savings banks and companies.

At this moment, those in the industry are calling J Trust into question for its successive attempts to acquire Korean firms. J Trust has enjoyed huge profits by bond purchases and debt collection also in Japan, rather than normal sales activities. Many people are saying that J Trust is trying to do the same thing here in Korea

while circumventing government regulations. "Savings banks are banned from purchasing lenders' bonds and it seems that J Trust is intending to acquire lenders for alternative loans," said one of them.


Another problem is the high profits of Japanese companies. Excluding the savings banks suffering from extended insolvency, the Korean lending market is like a bonanza for them. Rush & Cash's return on assets for FY 2012 was no less than 6.2%, much higher than banks' average at less than 1%.

They have taken hundreds of billions of won so far. For example, Sanwa Money's total assets are at around 1.1314 trillion won (US\$1.0678 billion), but its capital is 753.1 billion won (US\$710.8 million). It has put all of its profits into internal reserves. Rush & Cash's total assets and capital are 1.4959 trillion won (US\$1.4118 billion) and 916.6 billion won (US\$865 billion), respectively.

Japanese companies' business in Korea can be of help when it comes to dealing with Korean institutions' insolvency. It is none other than SBI that is normalizing the business of Hyundai Swiss Savings Bank through a capital

increase. Even a high-ranking government official admitted this point by saying, "SBI invested close to one trillion won for us not to suspend the sale of the savings bank," adding, "It has turned out that the Japanese company helped us to protect the customers from business suspension."

Japanese lenders are buying distressed debt, too. Chinae Savings Bank bought 313.6 billion won (US\$296.0 million) worth of loans from what was Solomon Savings Bank, and 193.9 billion won (US\$183.0 million) worth of loans from HK Savings Bank this year. They have long been major players in the non-performing loan (NPL) market in Korea. "It cannot be denied that the Japanese capital has alleviated the burden of the financial authorities, at least to some extent, by purchasing insolvent savings banks and NPLs," an expert explained.

Still, market watchers are concerned over the possibility of them dominating the overall lending market. Once they get the inside track, customers with low credit ratings cannot help themselves in the face of a potential lending rate hike or stricter debt collection, due to the absence of local alternatives. 

Influence Expanding in Industries As Well for Incomplete Regulations

Orix, which is emerging rapidly in the non-banking sector, is increasing its influence in many industrial fields, too. It has taken over STX Energy during the restructuring of the STX Group. The thermal power generation company ended up in the hands of Orix due to the government's policy to not limit the eligibility in the case of a change in major shareholder. Likewise, there is no way to stop Tong Yang Power from being bought by a foreign company.

In the meantime, Toray Advanced Materials was

selected as the preferred bidder for Woongjin Chemical last month, and Nichi-Iko Pharmaceutical, the number one counterfeit drug manufacturer in Japan, has become the largest shareholder of Binex. "Japanese capitals are rushing into the Korean market to capitalize on the low interest rate trend," said a market insider, adding, "We need to closely monitor the situation because foreign investors can fly out any time they want after taking a significant sum of profits."

KOSPI OUTLOOK

Global Investment Banks Paint Rosy Picture for KOSPI in 2014



Goldman Sachs Tower in Jersey City, New Jersey, US. Global investment banks such as Goldman Sachs, UBS, and JP Morgan are presenting positive outlooks for Korean stocks next year. (Photo by BigMac via Wikimedia Commons)

Global investment banks predict that the KOSPI will surge nearly 20% next year.

According to Bloomberg's analysis on December 9 about the prospects for South Korean stocks in 2014, experts from 15 investment banks such as Goldman Sachs, UBS, and JP Morgan said that the KOSPI would edge up 18% on average to reach 2,341 points next year, surpassing the previous record of 2,228.96 points in May 2011.

In the report published on the same day, Credit Suisse predicted that the KOSPI would rise to 2,400 points by the end of 2014, well above investment banking experts' forecast of 2,341 points. Goldman Sachs estimated the figure at 2,350 points, higher than those experts' predictions.

The reason for global investment

banks' positive outlook on the Korean stock market lies in the fact that local firms' profits are expected to increase in 2014, and stock prices are still considered to be undervalued.

Credit Suisse wrote, "Korean companies' performance in 2014 is likely to be better than this year. In particular, stocks related to energy and banks that showed poor results in 2013 are expected to go up dramatically next year, because of a rise in domestic demand." For promising investments, it listed undervalued stocks of companies, which include the likely beneficiaries of advanced countries' economic recovery – Samsung Electronics, Hyundai Motor Company, and SK Hynix. It also listed probable beneficiaries of restored domestic demand — Shinhan Financial Group, Hana Financial Group, Daelim

Industrial Co., and Hyundai Development Company. Finally, it itemized companies that would see a resurgence due to previous large declines in their stock prices such as Hyundai Heavy Industries, Lotte Chemical Corporation, S-OIL, NCsoft, and Seoul Semiconductor.

In the meantime, Bloomberg reported that foreign investors have been buying Korean stocks worth US\$13.5 billion in the latter half of this year, affected by US\$9.51 billion of the nation's current account surplus in October and a positive trend in exports. In addition, it stressed that the Price on Book-value Ratio is still 29% lower than the MSCI Asia Pacific Index, even though the KOSPI climbed 11% compared to the figure for June, which is this year's low.

NON-PERFORMING CAPITALS

Large Businesses Represent 80% of Firms at Risk of Insolvency



The percentage of large companies in danger of going bankrupt grew to 81.1% in the first half of 2013 from 64.2% in 2005.

The non-performing assets (NPAs) of Korean financial companies are reported to have increased dramatically since the global financial crisis. Experts raised concerns about the possibility that a steep increase in large firms at risk of insolvency would generate anxiety in the financial market.

According to a report on the growing trend of companies at risk of bankruptcy released by LG Economic Research Institute on December 3, the size of Korean financial firms' NPAs is estimated at 39.8 trillion won (US\$37.5 billion) as of September this year. The number is the highest since 2000, after reaching 56.4 trillion won (US\$53.1 billion) in the late 2000s.

NPAs are loan portfolios that are classified as substandard loans. Domestic financial companies' NPAs ballooned to 38.7 trillion won (US\$36.5 billion) at the end of 2011 from 16.8 trillion won (US\$15.8 billion) in late 2007, because of a continuing upward trend since 2008. The figure for 2012

was 33 trillion won (US\$31.1 billion), but the number increased by 6.8 trillion (US\$6.4 billion) from January to September this year.

Large companies in danger of going bankrupt grew from 64.2% of the total in 2005 to 81.1% in the first half of 2013. Their debt comprises 93.2% in 2005, but jumped to 99.1% this year.

Industry analysts are saying that the growing percentage of debt held by firms at risk of failing is attributable to a rise in debt owned by large companies, even though there is not much difference in the total number of firms at risk. Debt owed by those unsound companies rose from 13.3% in 2005 to 34% this year.

Meanwhile, the non-performing loan (NPL) ratio of large companies is reportedly higher than that of small and medium-sized enterprises (SMEs) in the second quarter this year for the first time after the global financial crisis of 2008.


According to the financial industry

on November 28, SMEs' NPL-to-total loan ratio was 2.15%, while that of large companies was 2.31% in Q2 2013. As of late June, SMEs' NPLs amounted to 4.4 trillion won (US\$4.1 billion), whereas those of large firms totaled 5 trillion won (US\$4.7 billion). In the third quarter, the gap widened with 2.15% for SMEs and 2.55% for large firms.

A researcher at the IBK Economic Research Institute said, "The potential risks of the shipping, shipbuilding, and construction industries are on the rise under the circumstance that their delinquency and bankruptcy rates have been increasing starting in 2012." The researcher added, "The crisis of the Tong Yang Group contributed to a dramatic increase in large firms' NPLs."

On the other hand, large manufacturing companies have been holding the largest-ever amount of liquid assets in recent years, showing that they were reluctant to make investments amid economic uncertainties.

According to data unveiled by the private financial information provider Fn Guide, the nation's 81 listed manufacturing affiliates of the top 10 conglomerates saw their liquid assets reach 252.3 trillion won (US\$238.3 billion) at the end of September, up 14.8 percent from 219.8 trillion won at the same month in 2011.

In particular, liquid assets held by Samsung Group reached 90.2 trillion won (US\$85 billion) as of the end of September, up 35.7 percent from 2011. Its flagship affiliate Samsung Electronics held 59.4 trillion won (US\$56.2 billion) in liquid assets, up 56.8 percent from 37.9 trillion won (US\$35.9 billion) in 2011. 



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NOVEMBER'S TRADE PERFORMANCE

Trade Surplus for 22nd Straight Month



Dusk falls over cargo containers stacked 3-high at Busan Harbour Cargo Terminal. Imports and exports constitute 33.7% of the total national economy. (Photo by Eastberliner via Wikimedia Commons)

Korea recorded a trade surplus for the 22nd straight month in November despite sluggish exports growth.

According to data compiled by the Korea Customs Service on December 15, Korea's exports amounted to

US\$47.80 billion last month, up 0.2 percent from the same month a year ago, while imports dropped to US\$43.11 billion, down 0.6 percent from a year earlier.

Consequently, Korea's trade surplus

reached US\$4.80 billion last month, marking 22 straight months of surplus since February last year. During the January-November period this year, its cumulative trade surplus jumped to US\$40.5 billion.

By product, exports of ships, home appliances and mobile communications equipment rose 31.6 percent, 9.6 percent, and 8.7 percent in November, respectively. Those of steel and liquid crystal display products, however, dropped 17.2 percent and 14.0 percent.

By country, exports to Australia, the EU, China, and the US rose 29.1 percent, 6.5 percent, 9.7 percent, and 3.7 percent, respectively, over the same period, while shipments to Southeast Asian countries, the Middle East, and Japan declined 11.9 percent, 10.7 percent, and 6.6 percent each.

Inbound shipments of low materials decreased 4.3 percent, including crude oil (-8.6 percent) while those of cars and machinery increased 48.2 percent and 6.4 percent, respectively. BK

ICT TRADE

Trade Surplus of ICT at All-time High Jan-Nov

Korea's trade surplus in the information and communications technology (ICT) sector surged to record highs from January to November this year.

The Ministry of Science, ICT and Future Planning (MSIP) announced on December 10 that the nation's trade surplus in the ICT sector reached the highest annual figure at US\$81.9 billion during the cited period. This year's figure exceeded the prior record of US\$72.2 billion in 2010.

According to MSIP, ICT exports amounted to US\$14.66 billion last month, a 1% year-on-year increase, leading to its trade surplus of US\$7.8 billion, well above the number for the overall trade surplus in all total industries (US\$4.8 billion). It shows that the ICT sector is the top contributor to the country's growing exports.

In November, outbound shipments to China (Hong Kong included) and the ASEAN countries continued to rise, and exports of mobile phones, semiconductors, and digital TVs

showed an upward trend.

By country, exports to China gained 1.3% year-on-year to hit US\$7.64 billion, while those to ASEAN nations posted 0.9% growth with US\$1.65 billion.

By category, semiconductor exports climbed 8.1% with US\$4.97 billion, and those of cell phones jumped 10.4% (US\$2.57 billion). Outbound shipments to digital TVs also edged up 19.8% to US\$570 million.

On the other hand, imports of ICT goods totaled US\$6.82 billion last month, up 2.2% from a year ago. Inbound shipments from Japan, China, and Taiwan decreased, whereas those from the US, the ASEAN countries, and the EU rose. To be specific, imports from Japan recorded US\$1.06 billion (down 7.7%), followed by US\$2.23 billion from China (a 4.1% drop), and US\$770 million from Taiwan (down 10.4%). In contrast, those from the US went up 4.5% to log US\$660 million, followed by 7.9% growth in imports from the ASEAN countries (US\$1.06 billion), and a 5.5% rise from the EU (US\$540 million).

MSIP predicted that annual ICT exports would surpass US\$160 billion this year for the first time, helped by the upswing in exports of smartphones and semiconductors, despite the slowdown in global IT market growth.

TRADE PERFORMANCE

Korea Gained More Trade Surplus in November than a Year Ago



A bird's eye view of Busan Port. Trade surplus in November amounted to about US\$4.8 billion, up 3.8 percent from a year ago.

Korea's trade surplus increased in November from a year earlier, as its exports inched up while imports inched down.

According to the Ministry of Trade, Industry and Energy on November 30, the nation's outbound shipments in November amounted to slightly over US\$47.91 billion, up 0.2 percent from the same month last year, but down 4.9 percent from US\$50.4 billion in the previous month.

Inbound shipments, on the other hand, fell down 0.6 percent from a year earlier to US\$43.11 billion.

Posting the trade surplus for the 22nd consecutive month, the trade surplus in November amounted to about US\$4.8 billion, up 3.8 percent from US\$4.42 billion in the same month last

year.

The ministry attributed November's monthly growth in outbound shipments largely to exports of ships and IT products.

More specifically, exports of ships skyrocketed 30.5 percent year-on-year to US\$2.54 billion. Exports of mobile communication devices, such as cellular phones, jumped 12.6 percent to US\$2.89 billion while semiconductors' shipments were US\$4.98 billion, up 8.2 percent from a year ago.

However, exports of liquefied crystal display (LCD) panels dropped 13.4 percent from a year ago to US\$2.18 billion, and exports of steel products also declined 20.3 percent to US\$2.87 billion.

By nation, the country's exports to

the EU climbed 6.8 percent from a year earlier, while shipments to the US and China also increased 2.9 percent and 3.7 percent, respectively. Exports to the US skyrocketed to 23.1 percent in October from the previous month.


Exports to Middle Eastern countries dropped 10.7 percent from a year earlier, and those to the 10 member countries of the ASEAN plunged 11.2 percent, mainly due to the aftermath of Indonesia's economic downturn.

Exports to Japan in November continued a downward trend owing to the yen's slide, down 6.7 percent from a month ago.

In the meantime, November's slight fall in imports was attributable to a large decrease in energy imports. The nation's imports of coal dropped 21.5 percent year-on-year to about US\$1.04 billion, along with import drops of crude oil and petroleum products by 8.6 percent and 7.2 percent each, to some \$8.33 billion and \$2.33 billion, respectively.

Its imports of capital goods, on the other hand, jumped 28.7 percent from a year ago in the first 20 days of the month as its purchase of semiconductor manufacturing equipment skyrocketed 242.9 percent. Imports of mobile communication devices also surged 56.4 percent.

The ministry said that the country's exports will likely continue to rise, though many external risks still exist, including the US's tapering of quantitative easing.

Meanwhile, the nation's trade surplus in the first 11 months of the year reached US\$40.5 billion, the ministry said. 

KOREA'S TRADE PERFORMANCE

Korea Becomes Largest Exporter to China



President Park Geun-hye (center) applauds at a ceremony to mark the 50th Annual Trade Day in COEX, Seoul on December 5.

The Ministry of Trade, Industry and Energy (MOTIE) announced that South Korea overtook Japan to become the largest exporter to China this year for the first time, despite the global economic slowdown. The announcement was made at the ceremony to mark the 50th Annual Trade Day held at the COEX Convention Center in Seoul on December 5.

According to the MOTIE, Korea's exports to China reached US\$150 billion as of late October. The figure represents 9.4% of the total, making Asia's fourth-largest economy the top exporter to


the world's second-largest economy. The next spot was taken by Japan with US\$133.2 billion, and the gap between Korea and Japan totaled US\$17 billion. Thus, it appears to be impossible for the world's third-largest economy to displace the world's 13th-largest economy. Japan has maintained the top spot in China's export partner rankings until beaten by Korea this year.

This year, Korea is expected to achieve US\$1 trillion in annual trade for the third straight year, and the country's exports and trade surplus are also likely

to surge to record highs. Exports are estimated at US\$560 billion, a year-on-year increase of more than 2%, while the trade surplus is projected to be around US\$43 billion.

"I'd like to move forward with a second drive for nation building through export promotion under the goal of becoming the world's fifth-largest trading nation and attaining US\$2 trillion in annual trade by 2020," said President Park Geun-hye at the ceremony. President Park added, "I will actively seek to accomplish three major tasks of nurturing new export industries, increasing export capabilities of small and medium-sized enterprises, and strengthening sales diplomacy and our foundation for free trade."

The President also pointed out, "Korea will be able to become a major power in intermediary and processing trade by combining our advantage of the geographical location in the middle of Northeast Asia, our institutional base for free trade with countries, and local companies' global production networks."

She concluded by saying, "Through an FTA with China, I will lay the groundwork to facilitate local companies' entry into the Chinese market. I will also actively respond to future developments in regional free trade discussions, including the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP), and the Transatlantic Trade and Investment Partnership, in a way that maximizes our national interests." 

Korea Achieves US\$1 Trillion in Trade for 3 Consecutive Years

The Ministry of Trade, Industry and Energy (MOTIE) announced that South Korea's trade volume exceeded US\$1 trillion as of December 6 for the third year in a row.

According to MOTIE, the nation's exports posted US\$519.4 billion, while its imports hit US\$480.6 billion in the cited period. This year saw the 1 trillion dollar mark achieved 4 days earlier than last year.

Korea's trade surplus reached a record high with US\$43

billion. Only four countries — South Korea, Germany, China, and the Netherlands — recorded more than US\$1 trillion in trade volume and a trade surplus for the third straight year.

Semiconductors and smartphones are widely regarded as the driving force behind the growth of exports that made up for the poor performance of some of the main items such as steel and petroleum products. However, the US\$1 trillion achievement came later than expected.

CASH FLOW OF CONGLOMERATES

SK Group Records Highest Cashable Asset Growth Rate



The cash flow of major business groups such as the Samsung Group, Hyundai Motor, Hanjin, and Hanwha is getting worse for different reasons. For example, it is investment for Samsung and Hyundai Motor, which own a large amount of cash, and is sluggish performance for Hanjin and Hanwha.

As of the end of the third quarter of this year, the combined cash and cashable assets of the 81 listed non-financial subsidiaries of the 10 major conglomerates including LG, SK, Lotte, Hyundai Heavy Industries, GS, and Doosan, were 75.7136 trillion won (US\$71.5359 billion). The amount increased by 153.8 billion won (US\$145.3 million) from the end of last year.

The amount increased by 1.3822 trillion won (US\$1.3060 billion) to 13.5881 trillion won (US\$12.8450 billion) for the affiliates of the SK Group, and by 757.3 billion won (US\$715.9 million) to 7.9647 trillion won (US\$7.5252 billion) for those of the LG Group. The sum increased in Lotte, Hyundai Heavy Industries, GS, and Doosan as well by 757.4 billion won (US\$715.6 million) to

2.8109 trillion won (US\$2.6558 billion), 300.6 billion won (US\$284.0 million) to 1.8772 trillion won (US\$1.7736 billion), 437.2 billion won (US\$413 million) to 2.8859 trillion won (US\$2.7280 billion), and 230.9 billion won (US\$218.3 million) to 5.0386 trillion won (US\$4.7606 billion), respectively.


Meanwhile, the amount decreased in Samsung, Hyundai Motor, Hanjin and Hanwha. The total went down by 9.73% to 21.8576 trillion won (US\$20.6515 billion) in Samsung, 3.46% to 15.3314 trillion won (US\$14.4930 billion) in Hyundai Motor, 26.70% to 1.9846 trillion won (US\$1.8751 billion) in the Hanjin Group and 3.39% to 2.3741 trillion won (US\$2.2443 billion) in the Hanwha Group.

Experts point out that the evaluation of their cash and cashable assets should factor into group-specific characteristics. The decrease in the asset amount of those with much cash or capable of cash creation should be considered to have to do with investment, but this is not so for those suffering from poor business results.

This means that the subsidiaries of Samsung have been aggressive in investment. The cash and cashable assets of Samsung Electronics decreased 6.79% to 17.5147 trillion won (US\$16.5569 billion) between the end of 2012 and September 2013. Samsung Electronics made large investments this year to release the Galaxy S4, Galaxy Note 3, and Galaxy Gear, and to expand its memory semiconductor post-processing lines in Xian, Shaanxi in China.

In the meantime, the Hanwha and Hanjin Groups are facing worse cash flow than before due to the business slowdown. Securities analysts say that their cash and cashable assets dropped for subsidies to affiliates and debt repayment. In the Hanjin Group, all of the subsidiaries witnessed such a drop this year with the only exception of the Korea Airport Service.

“Hanjin spent a lot of cash on debt repayment, and in order to support the business operation of its daughter companies,” said a stock market source, adding, “Thus, the cash flow situation is pretty adverse for it, at least for a while.” On a consolidated basis, Korean Air’s operating profits fell 43% year on year to 160.0660 billion won (US\$151.2339 million). Hanjin Shipping went into the red during the same period.

Hanwha Chemical’s photovoltaic power generation business has posed a heavy burden on the entire Hanwha Group, too. According to KB Investment & Securities, Hanwha Chemical, the world’s third-largest solar power company, recorded an operating deficit of 252.70 billion won (US\$238.76 million) last year, due to the supply glut in the market. 

RESTRUCTURING OF DOOSAN GROUP

Doosan Affiliates Making Desperate Efforts to Improve Financial Status

Doosan Engineering & Construction (Doosan E&C) announced its plan on November 26 to secure 400 billion won (US\$377 million) through institutional investors. The announcement is receiving a lot of attention from the industry, since its interest is focused on whether or not the plan will be successful. The success of the plan will settle down any controversy over Doosan E&C's ability to repay its corporate bonds by next year. Failure, on the other hand, will intensify doubts about the company's capacity to mobilize capital.

Last February, Doosan Group announced the way to improve its financial structure through 1 trillion won (US\$941 million) worth of capital injection, including 450 billion won (US\$424 million) from a paid-in capital increase and 570 billion won (US\$537 million) from investment in kind. However, Doosan E&C needs to raise the 1 trillion won to repay short-term debt within one year.

Doosan E&C's move to increase the paid-in capital worth 400 billion won through the issuance of redeemable convertible preference shares (RCPSSs) can be interpreted as that it intends to secure money through the capital market under the circumstance that the company encountered difficulties in issuing corporate bonds with its credit rating falling to BBB+.

The RCPSSs are expected to be issued primarily targeting institutional investors. An industry source said, "If the paid-in capital increase assigned to third parties is not successful, Doosan E&C has to secure money in another way to repay its corporate bonds by




2014." The source added, "If the company cannot arrange money for repayment with its operating profits, the possibility cannot be ruled out that other affiliates of Doosan Group, like Doosan Heavy Industries & Construction, should provide financial support."

Meanwhile, Doosan Infracore unveiled on November 21 that it plans to sell stakes to overseas investors as an effort to improve its financial status.

The construction equipment company said in a regulatory filing that it would issue global depository receipts (GDRs), or certificates of stock owner-

ship, worth up to US\$400 million.

According to the filing, the GDRs represent 40 million common stocks and will be listed on the Singapore Exchange. The proceeds from the stake sales will be used to repay foreign currency-denominated debts. The price and number of stocks to be sold will depend on the procedure of the GDRs.

Doosan Infracore holds foreign debts worth 3.8 trillion won (US\$3.58 billion). The company borrowed around US\$2.9 billion to finance its takeover of the US-based construction equipment maker Bobcat in November 2007. 

RESTRUCTURING OF HYUNDAI GROUP

Hyundai Group under Pressure for SPC-based Restructuring like Dongbu Group



Hyundai Merchant Marine, one of the key affiliates of Hyundai Group, has been suffering years of recessions in the global shipping industry.

The government is putting pressure on Hyundai Group to launch a restructuring program in which the subsidiaries to be disposed of are sold in a package via a special-purpose company (SPC), as is the case with the Doosan and Dongbu Groups. The purpose is to urge Hyundai to show its will to sell key affiliates for intensive structural adjustments.

“It is unlikely that the Hyundai Group will go under in the near future, but it is also true that it needs a group-wide restructuring in the long term,” said a high-ranking official of the government on December 4, adding, “The disposal process must be swift, unlike in the case of Tong Yang, and the assets to be sold should be separated so that the owner exercises no influence in it, which was not so in the cases of Dongbu and Doosan.”

The Hyundai Group is suffering from years of recessions in the global shipping industry and Hyundai Merchant Marine, one of its key subsidiaries, went into red ink in the third quarter of this year. Under the circumstances,

the group is working on some self-help plans, and the Korea Development Bank (KDB), the main creditor bank, is demanding that Hyundai bring a restructuring program to win the trust of market participants.

Doosan sold its assets not directly but via an SPC. Using this method, it could address its immediate liquidity problems, because the SPC paid undertaking money on a priority basis. In addition, the price negotiations went smooth, as the owner could have little influence on the asset disposal processes. The Doosan Group adopted the method back in 2009 to raise liquidity within a short period of time, and Dongbu is following the same way to be well received by the market. Dongbu and its main creditor bank KDB conducted due diligence on some of the assets of the former from December 2 this year. They decided to sell them through a newly-established SPC that will acquire the assets and then settle the difference in price when the assets are sold to a purchaser. This means that Dongbu can raise at least some liquidity

before the disposal.

What the government is most concerned over is the possibility of the Hyundai Group repeating the same mistake as Tong Yang. The Tong Yang Group, whose restructuring program had gone awry before, tried to dispose of its assets through repeated attempts, only to fail because the owner’s family thwarted them by claiming that the assets are key subsidiaries.

The owner of the Hyundai Group has some shares in it through cross-shareholding as well, but the percentage is not stable. As such, the owner is providing inter-subsidiary support to protect his management rights. This is why the government is considering that Dongbu-style restructuring might not be easy for Hyundai.

Hyundai is currently preparing some restructuring programs on its own. “Hyundai Merchant Marine is expected to benefit from an improvement in the global shipping industrial conditions that are thought to be available next year or later,” the government explained in response, continuing, “If the group is to save Hyundai Merchant Marine, it has to surrender some of its core affiliates, and the government can lend a helping hand only after then.”

At present, the government is thinking that Hyundai Securities should sell its shares, but Hyundai has a different opinion. “The Hyundai Group is scheduled to be included in the main debtor group in April next year according to the strengthened standard,” said the financial authorities. “Hyundai needs to announce its restructuring plan before the inclusion if it is to win over market participants.”

SMARTPHONE PARTS MANUFACTURERS

Will Stock Prices Rebound After Losing Half Their Value?



The stock prices of companies that supply parts for Samsung smartphones are highly likely to rebound by the end of this year.

The stock prices of smartphone parts suppliers are showing signs of a rebound before the launch of the Samsung Galaxy S5, which is scheduled for early next year. Experts are forecasting that among companies that make parts for Samsung smartphones, the stocks of Samsung Electro-Mechanics, Partron, and JAHWA Electronics are highly likely to remain strong until the end of this year. They also predict that flexible smartphones will be showcased after the release of the Galaxy S5. On top of that, they advise that investors should pay attention to the stocks of manufacturers that supply parts for Samsung smartphones.

According to the Korea Exchange on November 29, stock prices for smartphone case maker Shinyang Company plunged by 78.22% from 20,250 won (US\$19.58) per share early this year. Touchscreen panel manufacturers MEL-FAS (65.86%) and DigiTechSystems (51.10%), Flexible Printed Circuit Board makers Interflex (55.76%) and Flexcom (51.99%), and High Density Interconnect Printed Circuit Board maker Korea


Circuit (41.55%) saw their share price falling by a little more or less than a fifth.

Hong Seung-pyo, a researcher at Samsung Securities, said, "The sales of high-end smartphones like the Galaxy S4 fell short of expectations, which had a huge impact on the stock price of smartphone suppliers." He added, "Samsung released smartphones in mid and lower range price segments because of a reduction in sales of high-end smartphones, leaving suppliers a small margin. In addition, suppliers themselves excessively increased their production based on the expectation of a sharp rise in demand, which resulted in a hike in depreciation costs. At the end of the day, increased depreciation costs negatively affected results for the third quarter. Those are the reasons why the share price of smartphone suppliers was cut in half."

Cho U-hyeong, a researcher at KDB Daewoo Securities, predicted, "It is highly likely that the stock price of companies that supply parts for Samsung smartphones will rebound by the end of this year owing to growing expectations about the introduction of the Galaxy S5

early next year." However, a big rebound is not expected this time, due to higher consumer expectations about new technologies.

Among manufacturers that supply parts for Samsung smartphones, Samsung Electro-Mechanics, LG Innotek, and Hansol Technics were named as companies with the prospect of an increase in the value of their stock when flexible and wearable smartphone markets grow in the future.

Baek Jong-seok, a researcher at Hyundai Securities, pointed out, "Flexible smartphones other than the current curved ones ought to be launched in order to satisfy consumer expectations of flexible displays. And an advance in wireless charging technologies is essential to increase the demand for wearable smartphones." He concluded by saying, "Wireless charging technologies are important because consumers do not consider glasses or watches to be products that use rechargeable batteries. Samsung Electro-Mechanics, LG Innotek, and Hansol Technics are currently developing related technologies." 

NO INNOVATION

Samsung Loses Patent Lawsuit against Apple Even on Home Turf



Samsung Electronics lost the second round of its lawsuit over patent disputes with Apple on its home turf. In the first round battle focusing on “standard patents” in August last year, the local court ruled that Apple infringed on two of Samsung’s patents, while Samsung also violated a bounce-back feature-related patent held by Apple. Both firms appealed the court’s decision.

The Seoul Central District Court ruled on December 12 that Apple did not infringe on three patents held by Samsung in the second round battle centered on “common-use patents,” of which Samsung entertained great expectations. In March last year, Samsung filed a lawsuit against Apple claiming the US-based IT giant copied its patents for the iPad 2, iPhone 4S and iPhone 5.

The three patents under legal dispute in the Korean court include one on being able to use the search bar while

texting (patent 808), notifying users when the user’s settings are changing (patent 646), and the technology to form a group message (patent 700). The court said that two of the three patented technologies held by Samsung did not show any “innovation” in technology, and the other one was not adopted by Apple.

More specifically, the court ruled that Patent 808 does not show any special innovation considering that any technician can develop the functionality of Patent 808 based on Apple’s PDA technology open to the public since 1999. Regarding Patent 646, the court also said that the patent has no innovative technology when compared to PDA products Apple sold in 1996. As for Patent 700, the court judged that Apple did not infringe on Samsung’s patent because some parts of the patent do not constitute Apple’s products.

Right after the ruling by the Seoul


Central District Court, the legal agency of Samsung Electronics said, “We will review all options possible and take legal steps to secure and protect Samsung’s patented technologies,” adding, “We’ll appeal against the decision.”

In the meantime, Samsung Electronics won patent lawsuits in a Mannheim court in Germany on December 11 (local time). The German court ruled against Apple in the lawsuit filed by Apple that Samsung unlawfully imitated its patented technologies. At court trials in Korea and Germany held around the same time, the two sides recorded one win and one loss against each other.

The two mobile giants have been involved in a multi-billion-dollar patent war in the courts of more than 10 countries, including the US, Germany, and Japan.

In Apple’s turf back in November this year, a US district court’s jury issued a verdict ordering Samsung Electronics to pay Apple US\$290 million in damages, saying that Samsung Electronics copied key features of iPhone and iPad devices.

The amount falls short of the US\$379.8 million requested by Apple, but is much higher than the US\$52.7 million Samsung argued that it should pay.

In August 2012, a jury at the U.S. District Court for Northern California awarded Apple US\$1.05 billion. However, Judge Lucy Koh ordered a new trial and allowed only US\$640 million in partial judgment in March this year. If Koh accepts the jury’s new verdict, Samsung will have to pay a total of US\$930 million. A ruling is expected early next year. 

TRIPLE DISTRESS OF SAMSUNG ELECTRONICS

Samsung Electronics' Smartphone Business Troubles at Home, China, Japan



Samsung Electronics' mobile phone business faces a crisis in the local market as well as in China and Japan.

A crisis is looming large for Samsung Electronics' mobile phone business in Asia. This is because Apple is launching an aggressive marketing drive in China and Japan to keep Samsung in check, while a bill to restrict mobile phone subsidies is about to pass the National Assembly in Korea. The cumulative sales of Samsung Electronics' mobile phone business unit amounted to 104 trillion won (US\$98.8 billion) during the first three quarters of this year.

According to market research firm Strategy Analytics, Samsung Electronics has dominated the Chinese smartphone market during the same period with a market share 21.6%, whereas Apple's share stood at just 4.8% to fall behind Chinese makers like Huawei, ZTE, and Coolpad. In short, Apple is no match for

Samsung as far as the Chinese smartphone market is concerned.


However, things are likely to change down the road, as commercial LTE services are launched there within this month. China Mobile, the world's largest mobile carrier with 750 million subscribers, is planning to release the iPhone 5S and iPhone 5C with its LTE services too. Forbes has estimated that Apple's monthly sales volume would increase by at least 1.5 million units, thanks to commercial LTE services.

The gap between Apple and Samsung is further widening in the Japanese market as well, where the former has outperformed the latter for long. According to the research firm, Samsung's quarterly sales volume has continued to fall for three consecutive quar-

ters, from 1.9 million in Q4 last year to one million in Q3 this year. Meanwhile, Apple's market share has risen up to 38.1%, overtaking those of Sony and Sharp.

Samsung's hard time in Japan can be attributed to various reasons. For example, NTT DoCoMo, the largest mobile carrier in Japan, has selected the iPhone 5S as its flagship model for the latter half of this year and concentrated subsidies on it for Apple's sales volume to skyrocket. In the first half, Samsung's Galaxy S4 benefited from the same policy.

In addition, Japanese consumers are shunning Korean products, to worsen the situation. "Most Japanese customers prefer American products like the iPhones and domestically-manufactured smartphones to all of the rest," said an industry expert, adding, "They think as little of Samsung's products as many Koreans think little of those made by Chinese manufacturers."

In the meantime, Samsung is in the face of an additional risk in its home turf, where its market share is over 60%, due to a pending bill. The government, the other mobile carriers and a lot of civic organizations are in favor of the Act on Improvement of Mobile Communication Terminal Distribution Structure, to isolate Samsung. According to the bill, handset makers are also subject to regulations in the event of excessive subsidies, and the subsidies they provide are subject to compulsory submissions, which could lead to a direct hit against its sales activities. 

SAMSUNG'S CHALLENGES

Two Things World's No. 1 Smartphone Maker Should Address



Samsung Group's market cap amounts to US\$288 billion (300 trillion won) at the moment, and its flagship unit Samsung Electronics posted US\$190 billion in sales last year. The sales number is close to combined figures for Microsoft, Google, Amazon, and Facebook.

In 2012, 215 million units of Samsung's handsets were sold worldwide, representing 40% of the total. The figure for this year is expected to reach 350 million units.

Even though the company maintains the top position in the smartphone market, it can be displaced anytime in the rapidly-changing global IT industry, as witnessed by Nokia and BlackBerry's sudden downfall. Then, what are the greatest challenges faced by Samsung that need to be tackled in order to keep its position?

In a December 14 article titled


"Samsung; Uneasy in the Lead," the New York Times (NYT) gave two pieces of advice to the Korean tech giant. First, NYT said that the company ought to be a tech trend setter. So far, Samsung has displayed its unparalleled concentration and capability in manufacturing the best possible products by following existing trends. As a result, the Korean firm occupies a top ranking position in various categories, but it carries the burden of making new trends on its own.

In fact, Samsung has made an effort to become a trend setter. The introduction of the industry's first smart watch, the Galaxy Gear, was the first step, and the launch of its curved OLED TVs is another attempt to create a new trend. However, the market's response to those products is not greatly favorable.

The newspaper also pointed out that the firm should be independent of Google. Most of Samsung's mobile

phones run on Android, Google's operating system. The problem is that there is big concern about the Korean company's waning influence in the global smartphone market at some point. Now, the competitiveness of smartphones is more likely to be determined by operating systems, apps, and other services rather than distinctive features of hardware alone.

Apple has a loyal customer base through a combination of hardware and software, while users of Samsung phones are less loyal. It means that Samsung users are more likely to replace their smartphones with other Android devices or even iPhones if they are not satisfied.

Therefore, Samsung's decision to release products equipped with Tizen OS in partnership with Japan's largest mobile carrier NTT DoCoMo can be interpreted as an endeavor to wean itself off of Google. 

SAMSUNG'S PREMIUM IMAGE

Why Is Average Sale Price of Samsung Phones Rapidly Falling?



Samsung Electronics is supplying handsets at lower prices than HTC, Sony, and Apple these days.

The average sales price of Samsung Electronics' mobile phones is going down at a rapid pace as the global mid-end smartphone market accelerates its growth. Experts are pointing out that the mobile phone manufacturing facilities in Korea are becoming hollow, with Samsung Electronics increasing its overseas production ratio for cost reduction.

According to market research firm Strategy Analytics, the ASP of Samsung phones decreased from US\$321 to US\$272 between the second and third quarters of this year. The decline in spite of the company's high-price and high-profit strategy is because the global smartphone market is shifting its focus from high-end products to mass market ones. Other major manufacturers such as Apple, HTC, and Motorola are facing the same trend, too. The situation is likely to continue for a while, as Samsung Electronics is releasing an increasing number of mid-end handsets in overseas markets.

At present, the cheaper smartphones priced at US\$250 or less account for 30% of the entire market, and that percentage is rising rapidly. As recently as the first quarter of this year, Samsung's ASP was second only to that of Apple. However, it is supplying handsets at lower prices than HTC and Sony as well as Apple these days. Specifically, it is estimated that the ASP of Samsung is less than half of Apple's.

In the meantime, Samsung Electronics is moving more and more of its smartphone manufacturing facilities to Vietnam, China, and some other countries with lower labor costs. Although the number of the phones supplied by Samsung is going up worldwide, its domestic production ratio is falling nonetheless.

Its Gumi plant in North Gyeongsang Province produces approximately 38 million units of phones a year, which is less than 10% of Samsung's total handset production volume. The company

is expected to sell 300 million units of phones across the world this year, but the record is unlikely to result in investment expansion and job creation in Korea.

In contrast, its investment in the production facilities located in Vietnam is skyrocketing year after year. Samsung's second plant in Vietnam, which is built at an investment of 2.22 trillion won (US\$2.11 billion), will be put into operation from February next year to take the place of its factory in China. It is planning on an additional investment of 1.11 trillion won (US\$1.06 billion) in another plant in the Yen Phong Industrial Complex.

At the same time, Samsung Electronics is trying to cut production costs in Korea by asking its partner firms to lower their component supply costs. Those in the know have pointed out that Samsung has made such requests on a rolling basis while asking for bigger markdowns for some of the firms. 68

APPLE'S INDEPENDENCE FROM SAMSUNG

Apple Works with TSMC for Manufacturing of A8

Apple is giving concrete shape to various measures to reduce its dependence on Samsung Electronics' application processors (APs).

According to industry sources, Apple has recently placed an order to TSMC in Taiwan for its next-generation AP, tentatively dubbed the A8. It is expected that TSMC's AP supply to Apple will be increased down the road, capitalizing on its newly established 20 nm production lines, which will be put into operation in January next year.

Meanwhile, Samsung Electronics' A8 production volume is likely to decrease with time. At present, Samsung is supplying most of the APs for the iPhone and iPad. TSMC has had difficulties in expanding production due to some product yield problems.

However, TSMC's expansion in production at this time is expected to result in double-digit sales growth. Its

CEO Mark Liu has recently explained that his company will start mass production in the 16 nm process at the earliest time possible next year.

Credit Suisse researcher Andy Abrams, in the meantime, predicted that the APs for Apple would account for 6.5% of TSMC's total sales for next year. Daiwa Capital Markets analyst Eric Chen estimated the percentage to be over 10%. The Taiwanese company recorded US\$5.53 billion in sales in the third quarter of this year.

Under the circumstances, it is expected that Apple will accelerate its efforts to rely less on Samsung Electronics next year. The purpose is to take an advantageous position in its patent lawsuits against Samsung that are going on in the United States, Korea, and Germany.

Apple is still working with Samsung Electronics' Device Solutions

(DS) Division while continuing its legal battle against its IT Mobile (IM) Division. Samsung's subsidiaries are supplying Apple with APs, memory, NAND flash memory, LCDs, and many other key components. "Apple is no match against Samsung's IM Division unless it is supplied with the DS Division's components," said an industry insider, adding, "As such, it will be very important for Apple to reduce its dependence on Samsung Electronics in the long term."

If Apple sticks to its plan, Samsung Electronics may be required to separate the IM from DS Division in a two-track strategy. Experts are pointing out that the DS Division will have to further beef up its technological and cost competitiveness.

At an Analyst Day event held on November 6, Samsung Electronics announced that it would apply 14 nm and 10 nm microfabrication processes to its foundry business. These are a couple of generations ahead of TSMC's 16 nm process. "We are currently working on the 10 nm process and will provide our foundry customers with advanced technologies such as FinFET and 10 nm," said Wu Nam-seong, president of the System LSI Business Unit of the DS Division of Samsung Electronics. 



LIQUIDATION OF STX DALIAN

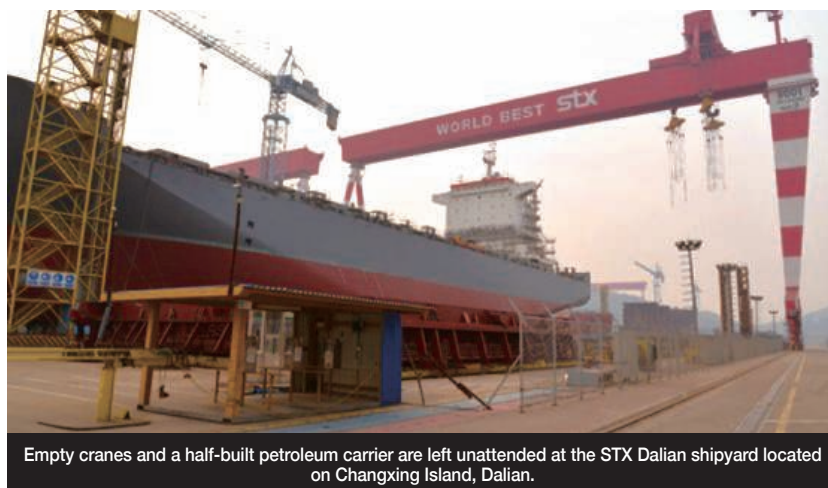
Will Prime Shipyard Be Presented to China Free of Charge?

STX Dalian has gone beyond redemption for not just the creditors but also the Chinese government. Public opinion is not good, and even the Dalian City Government is trying to back out. The Korea Development Bank (KDB), which is the main creditor bank, is feeling impatient as well. It needs to focus on the subsidiaries of STX in Korea that opted for corporate rehabilitation and is finding no other option but to give up on the shipbuilder.

Under the circumstances, STX Dalian, a shipyard worth three trillion won (US\$2.8 billion), is likely to face the worst-case scenario of liquidation to end up in the hands of China.

STX has invested no less than two trillion won (US\$1.9 billion) in the company, whereas the creditors lent just US\$400 million. Even if they have to repay the 750 billion won (US\$706 million) guaranteed by the subsidiaries in their place, the creditors need to separate the uncertainties of STX Dalian from the other businesses of STX in Korea. This is why the creditors expressed their desire to liquidate STX Dalian by selling it to the Chinese government.

The biggest roadblock to the liquidation is the back pay. Still, the problem appears to be solved these days at least to some extent. With the building of 15 or so ships completed, some of the wages of the subcontractor employees have been paid and those of some Chinese employees have been paid by selling equipment and raw materials. China cannot but agree to the liquidation in this same context as well. It is said that the Dalian City Government



Empty cranes and a half-built petroleum carrier are left unattended at the STX Dalian shipyard located on Changxing Island, Dalian.

is planning to deal with the back pay issue first by selling equipment such as engines after liquidation in order to settle the public sentiment.

If STX Dalian is liquidated, the 40 to 50 Korean partner firms in China take a direct hit. The trade receivables worth approximately 100 billion won (US\$94 million), overdue since the cessation of operations in March, are likely to go up in smoke then. The Chinese creditors suggested some plans to STX and KDB for business normalization, but the terms were too much for the Korean creditors. Industry insiders said that China is using its head to take STX Dalian at a giveaway price while using the excuse of business stabilization to put a good face on it.

The complex debt structure of STX Dalian makes it less attractive as an M&A target, but it can be addressed through a liquidation process and then China can take it away for almost nothing. The high-quality shipyard built through three trillion won (US\$2.8 bil-

lion) of investment is on the verge of being handed over.

STX Dalian Creditor Banks on Verge of Losing All Loans

With the STX Group's shipyard in Dalian around the corner, it has been found that the Korean creditors are on the verge of losing all of the 160 billion won (US\$151 million), which was lent to STX Dalian in the form of a syndicate loan.

This is because they lacked the understanding of local law, according to which the establishment of security has to obtain the permission of the authorities. The creditors claimed that the collateralized amount could be recovered even after they disposed of STX Dalian, but it turned out to be false in the end. Under the circumstances, the Korea Development Bank (KDB), which is the lead bank of the syndicate loan, is likely to be subject to some criticism.

According to local financial sour-

es, the security rights of the Korean creditor banks including the KDB, Woori Bank, Kookmin Bank, and Shinhan Bank are invalid, because they did not obtain the permission of the Chinese foreign exchange authorities while establishing the security. "Drawing up the business normalization plan back in July this year, the creditors reflected the 700 billion won guaranteed for Chinese banks in preparation of liquidation, while predicting that the 160 billion won general loan can be recovered," said one of the banks, adding, "However, something unexpected has happened and it can lead to controversies with time."


Besides, the creditors in China are claiming that the payment guarantee recently provided by the local subsidiaries of STX, such as STX Shipping, be handled by their Korean counterparts. "It seems that China is planning

on taking STX Dalian for nothing, capitalizing on the lax handling on the part of the Korean financial authorities and creditor banks that underestimated its negotiation strategies," an industry insider explained, continuing, "They lost the timing of production normalization and are likely to be bossed around by China down the road."

In the meantime, the association of the 50 or so Korean partner firms of STX Dalian held a rally in Seoul on December 12, claiming that the liquidation of STX Dalian be stopped to prevent the leakage of national wealth and technologies worth three trillion won (US\$2.8 billion).

"A total of US\$2.9 billion has been invested in STX Dalian, including the initial investment of US\$1.5 billion made in 2007 and the loan of US\$1.4 billion, but the company is on the brink of ending up in the hands of China

due to the negligence of the financial authorities and creditor banks," said President Choi Hee-am of the Chinese branch of KISWEL, who is the head of the association. He went on to say, "The local creditors are saying that there is no room for them to step in, because they lent just US\$300 million to US\$400 million out of the US\$1.4 billion, but the money lent by Chinese banks is only US\$420 million if the US\$700 million guaranteed by STX's subsidiaries is excluded," adding, "It is a dereliction of duty if the creditors do not come up with a plan to prevent the drain of national wealth."

The association filed a petition with the Presidential Office for the normalization of the management of STX Dalian, and is planning to take similar measures with the Ministry of Strategy and Finance, and the Ministry of Trade, Industry and Energy. 



Workers at STX Dalian demonstrate in front of its office building, requesting salary payments so that they can visit their home towns for the Lunar New Year holidays which will fall on January 31 this year.

ADDITIONAL DUE DILIGENCE

Will STX Sail to Rebirth or Insolvency?



STX creditors were set recently to conduct their second due diligence on the company to get a better grasp of the gravity of the situation.

The creditors of STX Offshore & Shipbuilding conduct their second due diligence on the company following the first one in July. It is quite unprecedented that a due diligence process is repeated on a company going through restructuring.

The creditors recently held a meeting and opted to do so in order to better look into the additional investment worth 1.85 trillion won (US\$1.76 billion) caused by a lack of liquidity. Deloitte Anjin and Samil PricewaterhouseCoopers will conduct their due diligence separately. The process in July was handled by the former.

The purpose of the processes is to get a better grasp of the gravity of the situation and the size of the liquidity to be injected in the future. The processes are expected to take about 30 to 45 days and the creditors are planning to finish


them before the end of this year.

“We will discuss financing issues again based on the result of the in-depth due diligence,” said one of the creditor banks, adding, “Depending on the result, the management could bear more responsibilities, additional fund support could be made or canceled, and new decisions could be made on corporate rehabilitation and court receivership.”

The accounting firms are going to focus on the shipbuilding costs and contingent liabilities of STX Offshore & Shipbuilding at this time. Specifically, they are planning to analyze with accuracy the size of the contingent liabilities that may take place when shipbuilding is canceled, while re-calculating the shipbuilding costs. According to the creditors, STX Offshore & Shipbuilding discounted the costs at first.

“Of the liquidity shortage of 1.85

trillion won, approximately 900 billion won was derived from the poor shipbuilding contracts of the past, and the rest has been caused by an increase in the costs and a decrease in the number of new orders,” the creditor continued.

The creditor banks will hold a meeting this week to decide on whether or not to provide 200 billion won or more before the year’s end, so that the company can repay the 100 billion won bond maturing on December 23. “We may provide no further support unless STX comes up with self-help plans such as layoffs and wage cuts,” it went on, “According to our analysis, STX Offshore & Shipbuilding is in a critical situation given its impact to the national economy, and thus we may make a significant decision depending on the result of the new due diligence processes.” 

NOVEMBER'S AUTO INDUSTRY

Hyundai, Kia Suffer Losses while Renault, Ssangyong Enjoy Sales Increases



According to industry sources, Hyundai Motor sold 408,533 cars last month, including 354,302 units sold overseas, down 2.8 percent from a year earlier. Kia Motors sold 38,952,

with 218,521 overseas sales, also down 0.3 percent from the same month last year.

Hyundai Motor and Kia Motors sold 54,302 and 38,952 cars, respectively, in the domestic auto market, suffering a double-digit decrease in sales compared to the same month last year, while GM Korea, Renault Samsung, and Ssangyong sold 14,100, 6,540 and 5,301 cars each, enjoying a sales increase of 2.4 percent, 48.5 percent, and 2.3 percent, respectively, from a year ago.

In particular, GM Korea recorded the highest-ever monthly sales since 2005. Ssangyong and Renault Samsung also enjoyed their biggest month-

ly sales in the year. Market shares of Hyundai and Kia have continued to fall.

Hyundai's and Kia's combined market share, which was 82.8 percent in January, fell to 82.2 percent in June and further to 78.2 percent in November. During the cited period, GM Korea's market share jumped from 9.6 percent to 11.8 percent while Samsung and Ssangyong saw their share increase to 5.5 percent and 4.4 percent from 3.9 percent and 3.7 percent, respectively.

The recent struggle of Hyundai and Kia Motors stems from the poor sales performance of this year's new cars. In addition, they have gotten a hard time because of quality issues related to their cars. The previous year's sales performance, which was hiked due to the special individual consumption tax, has this year's sales look relatively smaller.

In exports of cars in November, GM Korea's shipments decreased 13.7 percent, and Hyundai and Kia showed a 1.3 percent and 2.2 percent decrease each from a year earlier, respectively. Ssangyong Motors' shipments increased 5 percent while that of Renault Samsung increased 20.1 percent by selling 120,000 cars. RB

IMPORT CARS

What Is This Year's Top Seller?

This year's marked increase of import automobiles has been fueled by strong won and price cuts resulting from FTA, and sales are rising rapidly at 20 percent.

According to Korea Automobile Importers and Distributors Association's sales figure released at the end of November, BMM 520D, which has traditionally been the best-selling important automobile, again topped the chart with 7,904 units sold. Its goal of selling 10,000 a year now seems unlikely, but the newly introduced 5-Series has been selling well since its September release, and maintaining the top position is a certainty.

The second best seller was Volkswagen Tiguan 2.0 TDI, BlueMotion, whose success owes to recent popularity of SUV's (sport utility vehicle). Its premium model was first introduced in Korea in 2011, and last year the Comfort

Package and R-Line were added. Sales were meager 662 units in the first year of release, but last year jumped to 3,468, and this year again increased to 5,255 units sold, roughly twice the last year's figure.

The Third best seller is Mercedes-Benz E300. It has sold 4,668 units. Mercedes-Benz E series last month introduced the first diesel model BlueTEC Hybrid (Avan-garde), adding the total number of series to twelve. This year in particular, with the introduction of specially designed Avangarde and Elegance models, more variety and options were offered to customers.

The fourth best seller was again Mercedes-Benz, the E 220 CDI (4,721 units sold). The fifth was Volkswagen Passat 2.0TD (3,796 units sold). Audi A6 TDI Quattro and Volkswagen Golf 2.0 TDI each sold 3,111 and 3,092 units, respectively, coming in at 6th and 7th place. The only non-German car among the top 10, Toyota Camry occupied the 8th place with 3,012 units sold. Audi A6 2.0 TDI and BMW 320d were 9th, and 10th place.

HYUNDAI'S NEW SEDAN

Hyundai Motor's New Genesis Aimed at European Car Market

The revamped premium sedan comes with two types of an upgraded Lambda GDI engine. The Lambda 3.3 GDI engine produces 282PS of power, 35.4kg-m of torque, and fuel economy of 9.4km/L (based on 2WD 18 inch tires). The Lambda 3.8 GDI engine, on the other hand, produces 315PS of power, 40.5kg-m of torque, and fuel economy of 9.0km/L (based on 2WD 19 inch tires). Both engines are fitted with an 8-speed automatic transmission.

Equipped with advanced smart cruise control, the new model is offered with a choice of rear-wheel-drive (2WD) or new HTRAC All-Wheel-Drive (AWD) systems.

It is hard to find similarities between the new Genesis and the original released in 2008. Through a premium hexagonal grille, a dynamic character line running along the flanks of the car, and a sporty rear end design, the new version is specifically engineered to realize the image of a sophisticated and dynamic premium sedan.

Starting in 2009, Hyundai spent 500 billion won (US\$472 million) for 4 years in the development of the new model. Hyundai Motor Group Chairman Chung Mong-koo said, "The All-New Genesis was made by integrating all of our technologies, and the new model went through strict performance tests and quality control." He added, "Our new car will be able to compete directly with premium European rivals."

The Korean auto maker aims to sell 32,000 units at home and another 30,000 units abroad in 2014. Hyundai Motors is scheduled to launch the new



The Hyundai Motor Company officially launched the All-New Genesis in Korea on November 26. Its price is set between 46.6 and 69.6 million won (US\$43,941 - 65,629).

Genesis in the US and Europe in the first half of next year.


With the new Genesis launched, Hyundai Motor is planning to increase its market share in Europe up to 5% by 2017.

Back in the 1980s, Japanese car makers like Toyota and Nissan knocked on the door of the European market with great ambition. Their compact and inexpensive cars took little time to plant themselves, but failed to win over the majority of European consumers.

Their market share in Europe is just around 4% these days, even though they have released supercars and premium brands there. This is why Hyundai Motor Company, which entered the market later than Toyota and Nissan, is feeling edgy with the 4% market share mark in sight.

"We are planning to focus on test driving and premium marketing in

order to break the mark in the European market with our second-generation Genesis," said a high-ranking official at Hyundai on December 3. The idea is to let local customers compare the new Genesis with the Mercedes Benz E300 and the BMW 5-Series like it did in Korea in the recent past, when potential customers were given a chance to compare the i30 to the Volkswagen Golf, Sonata to the Toyota Camry, and first-generation Genesis to the Mercedes Benz E300.

It is said that Hyundai already put on a couple of comparative test drive events in Korea with owners of the first-generation Genesis, Mercedes Benz E-Class, and BMW 5-Series to gain some confidence. Hyundai Motor Europe is planning to increase its regional market share to at least 5% by 2017. The percentage was 3.4% last year. 

RESTRUCTURING OF SAMSUNG RENAULT

Renault Samsung Motors Losing Momentum for Lack of New Product



The Busan, Korea plant of Renault Samsung Motors is no longer producing the QM3.

It has been found that Renault Samsung Motors has been losing its importance in the Renault Group for years. According to Financial Supervisory Service data made available on December 17, Renault Samsung Motors dismissed 1,169, or over 20%, of its employees last year.

The company spent 48.1 billion won (US\$45.8 million) in severance pay for the employees dismissed in 2012, which increased by 53% when compared to the previous year. Meanwhile, it increased the wages and welfare expenses of the 30 or so employees dispatched from the Renault Nissan Group from 5 billion won (US\$4.8 million) to 7.3 billion won (US\$6.9 million) during the same period. This means that the employees at headquarters took more money at the cost of their Korean counterparts.

In addition, the sales earned through

Renault Samsung's commissioned research projects and sale of vehicles and auto parts to Renault Nissan decreased 17.8%, from 2.5116 trillion won (US\$2.3910 billion) to 2.0644 trillion won (US\$1.9632 billion) between the two years.

The more serious problem is the cut in R&D expenditures. Renault Samsung's R&D costs were reduced for three consecutive years until last year, from 4.8 billion won (US\$4.6 million) to 2.6 billion won (US\$2.5 million), and then to 1.08 billion won (US\$1.03 million). Its research expenses were almost halved as well, to 1.08 billion won in 2012.


As a result, Renault Samsung Motors failed to release a new model in Korea for approximately two years after the second-generation SM7, and brought in the small-sized SUV Captur under the name of QM3 only earlier this month.

The company recorded a local market share of 4.4% in October and November this year, the lowest among the five auto-makers in Korea. It is expecting that the QM3 will be its savior.

Still, industry insiders are pretty pessimistic about its sales growth forecast, as only 1,000 units of the model are scheduled to be sold within this year. Any others who intend to purchase the car can expect to sign their contracts from March next year.

In the meantime, Renault Samsung Motors' Busan plant is not benefiting at all from the release of the new model, because the QM3 is manufactured in the Renault Group's facilities in Spain. According to the Xinhua News Agency, the Renault Group is planning to create 1,300 new jobs in Spain for three years to come, by manufacturing the QM3 there.

"The most important role of the Busan plant is to meet domestic demand in Korea, but we cannot fully run the facilities given the current sales performance," said Gilles Normand, chairman of Renault Group's Asia-Pacific operations. Nonetheless, the company is not selling the Nissan Rogue, manufactured on consignment basis by the Busan plant, nor producing the QM3 in Korea.

This is why Renault Samsung CEO Francois Provost's recent remark is considered questionable. He has recently said that Renault Samsung will have to take up at least 10% of the local market if it is to expand the production of the Busan plant. "Renault Samsung Motors is likely to increasingly lose its ground in the group, as the gap between production and sales is widening," said an industry expert. 

CONTROVERSY ON HERITAGE TRACING

Renault's QM3 Model, Made in Spain but Actually Korean?



1,000 units of the QM3 were sold in just 7 minutes through pre-order sales in November.

Industry insiders are debating on the heritage of Renault-Samsung's QM3 that the local carmaker now imports from Spain, as the Korea Automobile Importers and Distributors Association (KAIDA) must decide whether or not it should include the model in the list of imported cars. The KAIDA conducts a survey on the sales of imported cars every month.

In November, 1,000 QMs were sold in just 7 minutes via pre-order sales. Renault-Samsung plans to ship all of the pre-ordered units by the end of the year.

Reflecting this figure in KAIDA's December chart complicates things. Assuming December's sales remain the same as that of November, the QM3's numbers will propel it past Ford, which sold 780 units in November. The QM3 will also likely match or outsell Audi, the 4th best selling import brand with 1,650 units sold. This will not bode well for Volkswagen either, the current

top seller (2825 units), since Renault-Samsung has about 5,000 QM3 units reserved on a waiting list.


Interestingly enough, Renault-Samsung has kept an awkward stance on this issue, putting a further spin to the debate. Samsung claims, "Strictly speaking, it is imported, but we are a domestic automobile brand. We will include them in our local accounts as we are the seller and owner of the brand," stressing, "Sales figures should not be included in the data of imports."

Ultimately, the distinction between import and export is based on the location of manufacture. But Renault-Samsung stubbornly insists, "We have manufacturing facilities in Spain. It makes all the economic sense to build our cars there because of low cost, efficiency, and proximity to our distribution network in Europe. That is all."

According to an industry insider, "It is very interesting that the carmaker

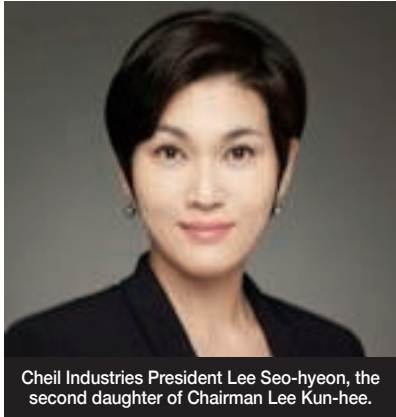
does not promote the QM3 as an import model, although local consumers think generally imported cars carry a degree of aura and prestige, giving manufacturers bragging rights so to speak. But Samsung-Renault is doing the opposite, claiming that their car is domestic," adding, "This appears to be a strategy to bring a new sensation for the company once it has drawn attention from consumers."

The Korea Insurance Development Institute has finally put a stop to this debate. According to the auto insurance rating, QM3 is categorized as "other," giving it a 10 rating, categorizing it as an import.

However, insurance agents give a different side to the argument. When asked how much insurance would cost for a QM3 minus discounts, the answer was about 700,000 won (US\$665), which is a typical cost for a domestic car in a similar class. 

PERSONNEL REALIGNMENT OF SAMSUNG GROUP

Change Delivers Three Messages, Including Spread of Samsung Electronics' DNA



Cheil Industries President Lee Seo-hyeon, the second daughter of Chairman Lee Kun-hee.

The Samsung Group appointed new presidents on December 2. The personnel changes can be characterized by the spreading of Samsung Electronics' corporate DNA to its other subsidiaries, a major reshuffle in its financial affiliates, and all of the third-generation own-

ers rising to CEO positions.

Specifically, Cheil Industries Vice President Lee Seo-hyeon was promoted to president with seven other new presidents, while eight others were allowed to transfer or take new jobs.

One more executive was promoted to president when compared to last year, and no one was promoted to vice chairman. Samsung has selected vice chairmen-to-be among the CEOs who spent at least seven years as president.

The group followed a strict merit-based rule during the personnel transfer, and Samsung Electronics, which showed a significant improvement in sales this year, distinguished itself in it. Five out of the eight new president candidates of Samsung Electronics were appointed as the presidents of the other affiliates of Samsung Group.

Lee Seo-hyeon, the second daughter of Chairman Lee Kun-hee, took the president position in charge of management planning at the Fashion Division of Samsung Everland and the top position at the Management Strategy Division of Cheil Industries. All three children of the chairman, including Samsung Electronics Vice Chairman Lee Jae-yong and Hotel Shilla President Lee Bu-jin, rose to CEO positions. Their increased roles in Samsung Everland, which is at the top of the ownership structure of the Samsung Group, are resulting in a greater interest in who will inherit the company.

Also, all of the CEOs of the financial subsidiaries – Samsung Card, Samsung Fire Insurance, and Samsung Life Insurance – were replaced at this time. Keen attention is being paid to their future business strategies. BK

Samsung Electronics' Reshuffle

Keeps Three-pronged Business Units with Small Rearrangements

Samsung Electronics has reshuffled its operation for next year based on the two key words of "stability" and "substance." The reshuffling is interpreted as the strategy to solidly respond to market changes while maintaining the three core business units of IT and Mobile (IM), Consumer Electronics (CE), and Device Solutions (DS). The IM division operates the business for handsets and network products, and the DS division covers electronic components including semiconductors.

Samsung Electronics announced on December 11 that it will maintain its current three business divisions next year but rearrange some units as part of securing synergy effects.

The current heads of each business unit, Yoon Boo-keun, Shin Jong-kyun, and Kwon Oh-hyun will continue to lead the IM, the CE, and the DS, respectively.

Samsung said its digital imaging business unit will be put under the IM division, aiming at maximizing synergy between smart devices and digital camera technology.

The company also will set up a center that nurtures big data-related businesses. Korea's big data technology currently lags behind that of global tech companies such as Google and Amazon.

Samsung's revenue amounted to 59.08 trillion won (US\$56 billion) in Q3 this year, up 13.2 percent from a year earlier. Its operating profit jumped 26 percent to a record 10.16 trillion won (US\$9.6 billion). Its net profit hit a record 8.24 trillion won (US\$7.83 billion), up 26 percent from a year ago, largely due to robust shipments of smartphones and soaring chip prices.

PHARMACEUTICALS

Korean Stem Cell Drugs Push into Global Market



Korea-based biotechnology company Medipost announced on December 16 that it signed a license agreement with Indian pharmaceutical company Alkem Laboratories Ltd for its stem cell-based cartilage repair drug Cartistem. This is the first time for local stem cell drugs to penetrate the Indian market.

The Korean firm transferred exclusive sales rights and distribution rights in India to the other party, and will get license fees, milestone payments, and royalties. Alkem will be in charge of carrying out clinical trials of the drug and getting a clinical trial approval by the Drug Controller General of India (DCGI).

Medipost is planning to launch Cartistem in 3 or 4 years, and 40 billion won (US\$38 million) in sales is expected,

10 years after the introduction.

Prior to its entry in the Indian market, the Korean company signed license agreements for the drug with Hong Kong and Macao in November 2012, and also with Australia and New Zealand in February 2013. Currently, the firm is reported to be discussing the same agreement with other countries. In addition, clinical trials are being conducted in the US under the USFDA's approval in order to make inroads into the US market.

Pharmicell, another stem cell therapy developer, said that its task for the USFDA's clinical trial project involving its stem cell therapy for cirrhosis was selected as a support project for global consulting by the Korea Health Industry Development Institute. The task is related to the transfer of manufacturing

technology to a local contract manufacturing organization (CMO) and the production of prototypes for clinical trials in the US.

An official at Pharmicell remarked, "We finalized a deal with CTRM, one of the CMOs in the US, to make our stem cell therapy for use in clinical trials, and started to transfer the related technology." The company anticipates that those clinical trials will proceed smoothly because of promising data for clinical trials of cirrhosis conducted in Korea, and the publication of the research article in an international journal.

The two Korean biotech companies were chosen as favored firms in the field of stem cell-based treatments by the HSBC Global Research in a recent research report titled Disruptive Technologies. 

SERVICE INDUSTRY DEREGULATION

Medical, Education Sectors to Be Less Regulated by Government



A bird's eye view of Busan Port. Trade surplus in November amounted to about US\$4.8 billion, up 3.8 percent from a year ago.

President Park Geun-hye stresses the importance of enhancing the competitiveness of the medical industry at the 4th Trade and investment Promotion Meeting in the Presidential Office on December 13.

The Korean government finalized its 4th plan to invigorate investment aimed at easing rules on the medical and education sectors at the 4th trade and investment promotion meeting presided over by President Park Geun-hye in the Blue House on December 13.

President Park said, "It's regrettable that local medical institutions' main source of revenue is tied to hospital bills, while those in other countries are engaged in various activities for income," adding, "It is important to create jobs for young people by developing the medical industry with a high performance workforce and big potential."

The president continued by saying, "It is also vital to enhance the competitiveness of the medical industry and help it

find new sources of revenue through creative alternatives under the premise that the sector will maintain the public nature of business."

Related to the improvement of education services, she pointed out, "Singapore emerged as Asia's educational hub by attracting branches of world-class universities or allowing joint institutes." The president added, "We should do the same thing. In particular, we ought to provide greater autonomy for educational institutes in free economic zones or special education zones at home."

The government also decided to let corporations that provide medical services to the public establish their subsidiaries for incidental business, for which only university hospitals are allowed at the moment. The decision targets 848 medical corporations that run 1120 hospitals. Samsung Medical Center and Asan Medical Center are excluded, since they belong to public-service corporations restricted from inter-company shareholding.

Apart from treating patients, medical organizations' incidental businesses will be expanded from the current medical staff training, post-natal care, and auxiliary services for funeral homes to the hospitality industry, the tourism industry, and businesses aimed at attracting foreign patients. The purchase of medical equipment and the development of medicines, cosmetics, and medical devices will also be made possible.


As a result, 848 medical corporations in Korea will be able to be involved in various activities to make profits by setting up subsidiaries with an investment of corporations and venture capital firms starting in 2014.

However, some in the medical industry think that the establishment of medical corporation affiliates is a precursor to the introduction of for-profit hospitals. Besides, pharmacists tend to be negative about the issue. Hence, the improvement of the medical system is not likely to be easy.

Meanwhile, Seoul also agreed to enable the merger of medical facilities at risk of insolvency with financially sound hospitals by allowing the amalgamation between medical corporations. So far, it has been necessary for local medical corporations to go into liquidation in the event of business closures resulting from a deteriorating financial situation.

To boost the number of foreign patients, a single room with low occupancy rates by local people will be exempt from regulations on top-ranked hospital beds for foreigners (less than 5%). Accordingly, the number of those beds will increase from 2,000 to 4,500.

On top of that, overseas educational institutes will be able to establish their branches in partnership with local school corporations in eight free economic zones and Jeju Special Self-Governing Province.

The Korea International School Jeju, which is a for-profit organization, will be permitted to divide profits from running the school. Until now the government measure to ban profit sharing has been regarded as a stumbling block to attract overseas schools. 

FINANCING FOR SME, VENTURE

KOSDAQ and KONEX Shunned by Investors Despite Government Support



The Korea New Exchange (KONEX) was launched in July this year in an effort to foster the Creative Economy, but has not been vitalized.

Immediately after the inauguration of the Park Geun-hye administration, investors had very high expectations for the KOSDAQ's mid and small-cap stocks. However, things are far from favorable for the tech-heavy market with the end of the year around the corner. The index and trading volume have shown little growth from the previous year, while 30% of the firms listed on it remain in the red. The number of newly-listed firms stands at just 24, 13 less than during the 2008 global financial crisis.

Institutional Investors Not Interested in KOSDAQ

According to capital market experts, the situation is attributed to disinterest on the part of local institutional investors, which have investment portfolios

revolving around those with higher market capitalization.

Under the circumstances, little information is provided as to KOSDAQ-listed companies. Financial information provider FnGuide's data shows that 75.73% of the 28,101 reports issued this year on the companies listed on the local stock market were about KOSPI companies.

The story is not that different in the performance forecast, either. At least three local securities firms have provided performance estimates for 193 out of the 728, or 26.51%, KOSPI companies, whereas the percentage is just 11.69%, 117 out of 1,001, in the KOSDAQ market.


"The number one customer of the reports published by research centers is institutional investors," said a mar-

ket insider, adding, "As such, securities firms find no reason to issue reports on KOSDAQ firms at their own cost, with the institutional investors paying little attention to them."

The Korean government launched the Korea New Exchange (KONEX) in July this year in an effort to foster creative economic activities, but it is showing little progress as well due to its high dependence on institutional investors. The purpose of the new stock exchange is to help more firms be listed on the KOSDAQ through investment by institutional investors, but those listed on the KONEX are having a hard time selling themselves.

Market Order Must Be Restored in KOSDAQ

Another problem of the KOSDAQ is that it is highly vulnerable to price manipulation attempts because of the lack of analyses based on objective data. It is in this context that the government has recently declared that it would take stern action against such attempts. The government also stated that it would grow the KOSDAQ and KONEX into major financing channels for small and mid-size enterprises.

At present, the largest shareholder of Celltrion, the company with the biggest market cap in the KOSDAQ, is under investigation for price manipulation allegations. Ssangyong Engineering & Construction, in the top five in the market cap, has been in a trade break for over six months due to encroachment of capital. This is why many experts are claiming that the market order be restored first for proper functioning. 

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당신의 오늘을 걱정하고 응원하는 따뜻한 잔소리를 해드리기로 말이죠.
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“BACTERIOBOT”

Korea Develops First Cancer-treating Nanorobot



The Korea New Exchange (KONEX) was launched in July this year in an effort to foster the Creative Economy, but has not been vitalized.

A Korean research team has successfully developed bacteribots that can diagnose and treat cancer. This bacteria-based robot is expected to be utilized to develop new treatments for cancer and various microrobots or nanorobots for medical purposes in the future.

A bacteriobot research team from Chonnam National University announced on December 16 that it confirmed the pro-

pensity of bacteribots to migrate toward tumors and their tumor targeting ability with animal testing.

According to the team, bacteria and bacteribots displayed minimal changes in normal cells, but those bacteribots moved toward tumor cells with increasing speed, and thus cell density grew. In addition, the research team verified bacteribots' tumor targeting capability and their existence in tumor tissues by injecting bacteria-based robots into tumor-bearing mice via tail veins and conducting an immunohistochemical study three days after the injection.

Genetically-modified non-toxic bacteria move inside tissues or blood with flagella, and find tumors by pushing microstructures and targeting certain drugs secreted by cancer cells. Upon the arrival of bacteribots in the tumor region, anti-cancer drugs that come from microstruc-

tures are spread onto the surface of tumors at a speed of $5\mu\text{m/s}$ on average.

Park Jong-oh from the School of Mechanical Systems Engineering at Chonnam National University said, “The importance of this research lies in the development of a new medical nanorobot and an active drug delivery carrier that can overcome the limits of conventional methods to diagnose and treat cancer.” Park added, “Our future plan is to develop medical microrobots or nanorobots capable of diagnosing and treating a lot of hard-to-treat illnesses through the convergence of medicine and engineering in our research.”

The research article, titled “New paradigm for tumor theranostic methodology using bacteria-based microrobot,” was published online in the December 2 issue of Scientific Reports, a scientific journal published by the Nature Publishing Group.

**ERA OF KOREAN DRONES**

Korea's Self-developed Drones to Be Commercially Available in 2017



ETRI developed an operating system to control computer systems of even unmanned aircraft.

The Electronics and Telecommunications Research Institute (ETRI) announced on December 16 that it has developed the Qplus-Air on its own, which is an operating system controlling computer systems of aircraft, and successfully finished a test operation on an unmanned aircraft.

The accomplishment is highly meaningful in that all of the currently available operating systems for unmanned aircraft are imported ones. Once the Qplus-Air is put to commercial use, the high dependence on imported software can be

reduced, and software upgrades and system updates are expected to be facilitated.

In particular, the Qplus-Air supports integrated modular avionics (IMA) for the first time in Korea in order to reduce the weight and power consumption of planes. It is a type of next-generation technology essential for longer flight durations and wider operation ranges of manned and unmanned aircraft.

The researchers who participated in the development have set up a venture company, named Altist, and had the technology transferred. Under the circum-

stances, ETRI is expecting that the commercialization of the technology will be able to be accelerated down the road. The venture firm has already signed a contract with Korea Aerospace Industries to supply a condition monitoring system that can be compared to a black box for helicopters.

The Qplus-Air is scheduled to be installed in the utility helicopter Surion in 2017 through more safety and security tests. “The system will be used in the helicopters manufactured by Korea Aerospace Industries, including the Surion and light armed helicopters,” said the ETRI.

LOCALIZATION OF KEY TECHNOLOGY

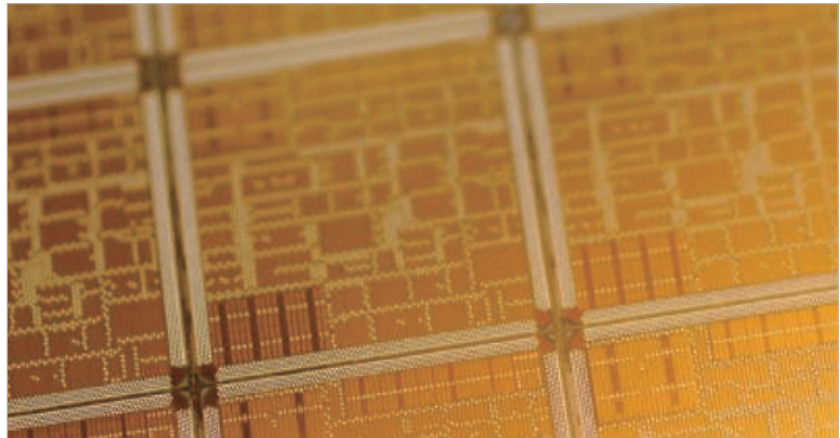
Core Technology for Digital Exposure Equipment Developed

A Korean research team consisting of members from both industry and academia have successfully developed key elements of 8th generation digital exposure equipment, or lithographic devices for flat panel displays, which can be used in manufacturing not only LCD but organic light-emitting diode (OLED) screens.

Exposure equipment for flat panel displays was the only device that was not localized among the five key devices to produce displays, which forced local manufacturers to rely solely on imports from other countries such as Japan. As this development will open doors for the local production of exposure equipment, it is expected to bring about an economic ripple effect of over 1 trillion won (\$US950 million), including import replacements worth 600 billion won (US\$570 million), or 20 to 30 billion won per unit.

The Ministry of Trade, Industry and Energy (MOTIE) announced on December 16 that it has completed the government-mandated project called the Basic Technology Development of Electronic Information Device Industry, and succeeded in developing key technology for 8th generation digital lithography, or the exposure device (2200×2500mm) of a flat-panel display. The 41 billion won (US\$39 million) project has been going since December 2008 with joint efforts from industrial and academic sectors including Samsung Electronics, LG Electronics, Poongsan Systems, Evertechno, and both Yonsei and Sungkyunkwan Universities.

Exposure equipment has been traditionally produced by Japanese firms such as Cannon and Nikon, which



Lithographic devices are necessary to carve out the intricate circuitry required for flat-panel displays.

have until now dominated the market. As such, the barrier to entry was high, and Korean companies had to rely on imports which generally amounted to 600 billion won (US\$ 570 million) a year. However, if the exposure device is localized, the current 60 percent localization rate of display equipment will jump to 90 percent, strengthening Korea's reputation as the world's leading display maker.


This newly-developed technology is a huge leap, and industry insiders are taking notice. Unlike the Japanese analog type, which exposes a "photomask" to light and draws its reflection on a glass display, it exposes computer drawn-circuitry to a glass panel directly without using a photomask. It is the first of its kind in the world.

Dr. Han Jae-won of Yonsei University, who took part in this project, said, "If photomask-less digital exposure technology is commercialized, it will save 500 billion won [US\$475 million] a year that has been spent on producing photomasks," adding, "Production,

development, and manufacturing time will also be shortened by 3 months."

Dr. Han Jae-won also said, "This newly-developed exposure technology uses Ultraviolet (UV) radiation and lasers instead of high-pressure mercury-vapor lamps, which will enable further microprocessing to a unit as small as 3.5 microns and will give us the edge on manufacturing high resolution displays."

It's expected that Samsung and LG will participate, together with small and medium sized companies, in the commercialization efforts of 8th generation digital lithography devices, and commercialization will take about 2 years to complete.

According to an official of MOTIE, "When digital exposure technology is commercialized, it will immediately be applied to domestic production lines at Samsung and LG. And further, it will be a stepping stone in making inroads into the global market for digital display lithography, which is estimated to be 1 trillion won [US\$950 million]." 

“KOREA GRAND SALE 2014”

It's Time to Go Shopping... in Korea!

**With a simple SNS click, get your first-class flight ticket and deluxe suite!
Offer valid January and February.**

Korea's biggest shopping festival, the Korea Grand Sale 2014, will be held from January 3 to February 16. The grand event will run for 45 days simultaneously in cities and provinces including Seoul, Busan, Gwangju, Ulsan, Gyeonggi Province, Gangwon Province, South Chungcheong Province, and Jeju Special International City.

Hosted by the Visit Korea Committee (VKC), sponsored by the Ministry of Culture, Sports, and Tourism, and partnered with MasterCard, the

Korea Grand Sale 2014 will be the biggest ever this year. 27,291 stores from 118 companies including department stores, duty-free shops, outlets, hotels, megastores, and supermarkets will participate, along with the country's 17 municipalities' traditional markets, offering a variety of shopping benefits, most notably a 10 to 50 percent discount to foreign tourists.

This year's Korea Grand Sale kicks off with the Welcome Event at Incheon Airport and the Opening Event at Doota Tower in Dongdaemun on Janu-

ary 3, offering a variety of events for 45 days. In particular, the mammoth event center located at the front of Doota Tower will hold weekly events and festivals with themes focusing on fashion, entertainment, food, and beauty. Tourists from around the world will not only enjoy shopping but also experience Korean fashion and traditional cuisine.

For those tourists staying for longer than two nights or more, the benefit called “One-More-Night Promotion” will be offered, with free room and





board for one additional night. Twenty-three 5-star hotels in Korea will participate in this program. Some hotels will provide perks such as the use of hotel facilities, and restaurant discounts will be given as well.

This coming Korea Grand Sale event puts more emphasis on giving foreign tourists easy access to Korea Grand Sale's shopping-related tips and event information. An interactive web site has been designed to work with PCs, tablets, and smartphones, allowing tourists to easily maneuver through the event and get quick information with the push of a button.


In particular, an online event will be held until January 12 to celebrate the official launching of the website, including a major sweepstakes event in which one foreign tourist will be selected and given a super-luxury package gift complete with a First Class ticket from Korean Air, a one night stay at a

suit at Hotel Lotte Seoul, and a Lotte Duty-free Shop gift certificate worth 1 million won (US\$944). During the promotional period, Wi-Fi hotspots exclusive to the event will also be installed around the Myeongdong area so that tourists can access information any time and share quick shopping tips.

Meanwhile, before the grand sale event starts, a "Boom-Up" event called the Pre-Korea Grand Sale will take place until the end of this year to hype the Korea Grand Sale and to attract 12 million tourists. Lotte Department Store, Shinsegae Department Store, Hyundai Department Store, Daegu Grand Duty-free Shop, Lotte Duty-free Shop, Shilla Duty-free Shop, Shinsegae Duty-free Shop, the Korea Tourism Organization's Duty-free Shop, the Galleria Luxury Hall, Doota, Lotte Fitin, Shinsegae Simon Premium Outlets, Lotte Premium Outlets, and Lotte Outlets are participating and actively

promoting discounts and perks.

VKC Director Han Kyung-ah said, "The Korea Grand Sale 2014 is more than merely a shopping event. It will be a more colorful and plentiful event compared to previous ones by giving tourists some chances to experience Hallyu (K-Wave) culture." She went on to say, "We want to give shopping tourists from around the world a sense of what makes Korea special. To that end, we are working closely with national flag airlines such as Korean Air, Asiana Air, Jin Air, and Jeju Air to develop various products and promotional packages for foreign tourists. And by aligning ourselves with MasterCard, we can use their network to promote our event overseas including in Japan and China."

The official home page, www.koreagrandsale.co.kr, provides more detailed information on Korea Grand Sale 2014. 

GRAND HILTON SEOUL

A Place Where Guests Can Take Part in Giving and Sharing



King Hilton Executive

The holidays are a time for giving and sharing. Hotel Grand Hilton Seoul has put together a holiday special package called Winter Story to help children from developing countries all around the world.

Guests can choose from the Warm Winter, Gourmet Winter, or Romantic Winter packages. Warm Winter and Gourmet Winter provide a stay in an executive room with breakfast and happy hour at the executive lounge. Romantic Winter is a special package that serves a Penfolds Koonunga Hill Shiraz with a cheese and fruit plate in a Junior Suite. A little teddy bear with the Grand Hilton logo is given to each guest as a gift. All the packages present guests with a set of two UNICEF cards that have been put together with charity in mind, to care for and satisfy the nutrition, basic education, and welfare needs of children from around the world. UNICEF has been selling 180

million cards every year.


According to a marketing official at the Grand Hotel Hilton, "The Grand Hilton Korea has been buying Christmas cards from UNICEF for the last four years. This year we have planned a package event in which guests fill out their own UNICEF Christmas cards and become a part of the sharing." The package event runs from December 1 to February 28, 2014. Reservations and other inquiries can be made by calling +82-2-2287-8400.

A UNICEF Card is a card for Christmas, New Year's, and special occasions, and is annually designed and donated by renowned artists and museums from around the world. It is sold in almost every country in the world, and 130 million cards are sold annually, with the total proceeds from sales estimated at US\$60 million.

Incomes from UNICEF cards are used in health, nutrition, basic educa-

tion, and welfare. The history of UNICEF cards traces back to the 2nd World War, when a little drawing by a girl from a Czech village was turned into a poster and spread around Czechoslovakia. Since then it was printed as a card, and it has drawn enough interest from sponsors and organizations to be a profitable charity. As such, the UNICEF card was established as a charity, and since 1949 it has sold 4.6 billion greeting cards.

Sales proceeds from UNICEF cards are used to benefit children. Thus the UNICEF card is known as the Life-saving Card around the world.

Children from Seodaemun-gu's public orphanage Songjookweon visited the Christmas Tree Lighting Ceremony, which was held on November 29, and sang heartwarming Christmas Carols. After the ceremony, a hearty buffet was provided as part of the holiday giving season. 

CNN'S LIST

What Does South Korea Do Best in the World?



CNN's article on November 28 (local time) posted on its website has grabbed people's attention. The Cable News Network cited Internet penetration, the use of credit cards, a culture of overwork, and others as "10 things South Korea does better than anywhere else."

The first mentioned wired culture refers to Korea's highest Internet penetration rate (82.7%) and smartphone penetration rate (78.5%). The article said that if you want to see what the future looks like, book a ticket to Korea. It added, "... South Koreans also use their smartphones to pay at shops, watch TV (not Youtube but real-time channels) on the subway

and scan QR codes at the world's first virtual supermarket."

The next one was the nation's ubiquitous use of credit cards. CNN pointed out, "South Koreans became the world's top users of credit cards two years ago, according to data from the Bank of Korea," adding, "... and all cabs have credit card machines." Thus, the international broadcaster picked Seoul as one of the top shopping cities in the world.

Overworking and the working/drinking culture were also on the top 10 list. "South Koreans are so used to studying," CNN wrote, "they can't get out of the habit once they reach the work force,"


adding, "You can see it in any Korean city, where lights in buildings blaze into the late hours as workers slave away."

It went on to say, "When they're not working, Koreans are celebrating their latest deals or drowning their sorrows in soju. While many leading companies are trying to curb the working/drinking culture, there are still plenty of bosses who drag their teams out for way too many rounds of soju/beer/whiskey 'bombs.'"

Koreans' innovative cosmetics were also named. The article stressed, "South Koreans can't stop experimenting with ingredients or methods of application. Snail creams (moisturizers made from snail guts) are so 2011."

On top of that, world-class female golfers, flight attendants' excellent service, and the widespread culture of blind dating were mentioned.

In addition, CNN commented on Starcraft by saying, "One country's hopeless nerds are among another's highest earning celebrities."

Finally, Korea is reported to be "a plastic surgery mecca." In particular, Russians, Chinese, Mongolians, and Japanese are said to flock to the country on plastic surgery "medical tours." 


SOJU

What Is World's Best-Selling Liquor?

An influential British daily newspaper's article on soju is drawing a lot of attention. It says, "The South Korean spirit is the globe's best-selling alcohol. But they're not just drinking it in Korea these days – you can try chilled shots or soju cocktails in New York and London."

In a December 2 article titled "Soju: the most popular booze in the world" the Guardian said, "There's a brand of one particular spirit that sells more than twice as much as any other in the world. Any guesses? If you said vodka, back of the class. The answer is soju, national hooch of South Korea."

Jinro Soju has maintained the top spot on Drinks International's annual list of best-selling global spirits for years, owing to its sales of 65 million nine-liter cases so far this year. The British newspaper commented, "That would be three times more than Smirnoff."

It went on to say, "Soju now sells in 80 countries, with a rising profile helped by Korean superstar Psy," adding, "K-Pop K-Shot billboards sprouted across America, showing Psy clutching a bottle of Chamisulsoju. A pioneering soju outlet at the LA Dodgers baseball arena sold out its supply after three games. In New York, bars hawk apple soju aperitifs and lychee soju slushies to Big Apple hipsters." 

HALLYU TV CHANNEL IN CHINA

DOX TV Will Open an Exclusive K-Wave Channel in China



DOX TV CEO Xiangjiang Tan signs contract with Hanyang Holdings CEO Shin Hwan-ryul to establish a joint venture to run Hallyu TV channel in China on December 4, 2013.

DOX TV CEO Xiangjiang Tan, who is also serving as the vice chairman of the Chinese Culture Promotion Society, visited Korea to discuss with its Korean partner Hanyang Holdings about the establishment of Hallyu TV Channel in China on December 3, 2013. Followings are some excerpts from the interview with him.

Is this your first time in Korea? What is the purpose of your visit at this time?

Actually, this is my third visit to Korea. I have been astonished by the dynamism and the fast development of the country every time I come here.

At present, my company is looking to turn its DOX TV channel into the first TV channel in Korea specialized in the Korean Wave (K-Wave) in cooperation with Hanyang Holdings, our local business partner. My purpose at this time is to attend the partnership agreement signing ceremony for it and discuss future business directions and details.

Please introduce our readers to DOX TV.

Established in 2008, DOX TV pro-

vides paid TV broadcasting services specialized in entertainment. It is currently running four NVOD channels, airing movies, TV dramas, documentaries and entertainment programs each, and transmitting broadcasts to all across China including populated provinces and cities such as Jiangsu, Sichuan, Hangzhou, Beijing and Shanghai. The number of viewers reached 65 million as of the end of 2012 and is continuing to increase along with its brand awareness as more and more Chinese are seeking for better cultural contents and increasingly willing to pay for them.

You've mentioned the conversion of one of the DOX TV channels into a Hallyu channel through joint business with Hanyang Holdings. Please elaborate it.

Hanyang Holdings CEO Shin Hwan-ryul has a very wide human network in the culture industry of China. For example, he has long been acquainted with the top management of SMEG, the largest film group in China. He felt sorry about the deterioration of the quality of the Hallyu for the unsystematic spread of the Korean Wave in China and proposed the conversion to us. We did our feasibility


studies to come to a positive conclusion with the popularity of Korean TV dramas and K-Pop being on the rise and more Korean companies than before doing successful business in China. We are very glad that we can be a bridge for cultural exchange between the two countries.

You have been in the broadcasting industry for 28 years and are serving as the vice chairman of the Chinese Culture Promotion Society. What are your key activities as of now?

DOX TV is striving to come closer to its viewers with its out-of-box TV broadcasting contents. It is in joint business with global leading companies and programs such as ESPN, American IDOL, Universal Movie, Times and Bertelsmann. Also, our business in Korea at this time and other ones in Taiwan and Britain will lead to huge synergy in the future.

Many people think that China is very strict about the import of foreign culture. Is that true? Then, aren't there some difficulties during the course of your business?

I guess it might be more accurate to say that China is hard on the imprudent import of some foreign culture that could harm its traditional custom. The new Hallyu channel is far from such contents and I see no particular difficulties with regard to it.

I am sure that the launching of the Korean Wave channel in China will result in a systematic and legal import of the excellent cultural contents of Korea so that every Chinese can enjoy the high quality. At the same time, I am anticipating that the channel will lead to more active cultural exchange between the two countries. 

PSY'S GENTLEMAN

2013's Most Watched K-pop Music Video on YouTube



Psy's music video "Gentleman" topped the list of 2013's top ten most watched K-pop music videos on Youtube.

Psy's music video "Gentleman," which has drawn nearly 600 million hits on YouTube so far, topped

the list of 2013's top ten most watched K-pop music videos on Youtube on December 10.

After its release in April, the music video attracted the attention of the public by snagging a Guinness world record for the most viewed video online in 24 hours, and also scoring 100 million views in the shortest period of time in Youtube's history.

In the meantime, PSY's official channel ranked first in the most popular K-Pop channel category on YouTube because it has the highest number of subscribers. The next spot was taken by SMTOWN's channel, followed by the BIGBANG channel. The channel of Jung Sung-ha, a guitarist who has risen to fame on YouTube, was in the fourth spot, which showed that his influence has become similar to that of top Korean musicians. 

Selected as TIME's No. 1 Viral Video of 2013

Psy's music video "Gentleman" also topped TIME's list of the Top 10 Viral Videos of the year. In addition, Girls' Generation's "I Got a Boy" ranked fifth in its list of the Top 10 Songs of 2013.

The magazine said, "Psy proved he wasn't a one-trick pony when 'Gentleman' broke all kinds of records right out of the gate, becoming the most viewed video online in a single day." It also wrote, "The nine-woman South Korean group Girls' Generation is a ridiculously effective hook machine, and a major phenomenon in Asia."

Daft Punk's "Get Lucky" ranked first in the Top 10 Songs list. Big Sean's "Control" used in the K-Hip Hop Diss Battle, Miley Cyrus' "We Can't Stop" that gotbmedia spotlight for her unusual performance, and Lorde's "Royals" that topped various charts were also in the list. Girls' Generation is the only Asian group.



Psy's "Gentleman" topped TIME's Top 10 Viral Videos of the year.

Psy's "Gentleman" drew 595.65 million hits on YouTube as of December 5, and his global mega-hit, "Gangnam Style," is the most watched video on YouTube, with over 1.8 billion views.

LOCAL MOBILE GAME MARKET

Korean Mobile Gaming Industry Rulership Changing Hands



Big companies are solidifying their hegemony in the local mobile gaming market.

The mobile gaming industry's current hegemony is shifting, as major companies are ramping up new titles and

dominating the charts.

According to an industry source on November 2, competition between small and large companies has dwindled. This is in stark contrast to last year, when small companies had the edge.

Current charts reflect this trend, as major gaming companies such as NHN Entertainment, Gameville, and Come2us rule mobile gaming's top charts. Several smaller independent companies have released their own titles, but have fallen behind.

Until last year, the domestic mobile gaming market was largely a domain of small, independent companies consist-

ing of 10 developers or less. The game Anipang, introduced by SundayToz, was a major hit, and DrafonFlight developed by one-man company Next Floor caused a major splash. But the trend took a sudden turn when the major companies entered the market.

The demise of small, independent developers is not owed to the quality of their gaming content but to their limited resources. Launching a sizable marketing campaign is impossible, and it is difficult to promote a mobile game by word of mouth. This trend is forcing small companies to align themselves with major companies. **by**

CRITICS' AWARDS

Snowpiercer, Face Reader Both Win 3 Awards at Korean Film Critics Awards



The Face Reader won 3 awards at this year's Korean Association of Film Critics Awards.

The 33rd annual Korean Association of Film Critics Awards was held at the Jung-gu press center on November 29.

Some of the biggest stars of Korean film, including Song Gang-ho, Un Ji-won, Shin Sung-il, Park Shin-hae, Jeong Eun-chae, and Lee Jung-jae were present to receive awards.

Un Ji-won won Best Female Actress with her performance in Wish. Park Sin-hae won Best Female Supporting Actress for her role in the film Miracle in Cell No. 7. Jeong Yeun-chae won the best New Female Actress award for Nobody's Daughter Haewon.

Snowpiercer won three awards for Best Film, Best Director, and Best Photography. The Face Reader also won three awards for Best Male Actor, Best New Actor, and Best Music Score. The CJ CGV Star Award, which awards the most popular actor/actress each year, went to Lee Jeong-jae. **by**

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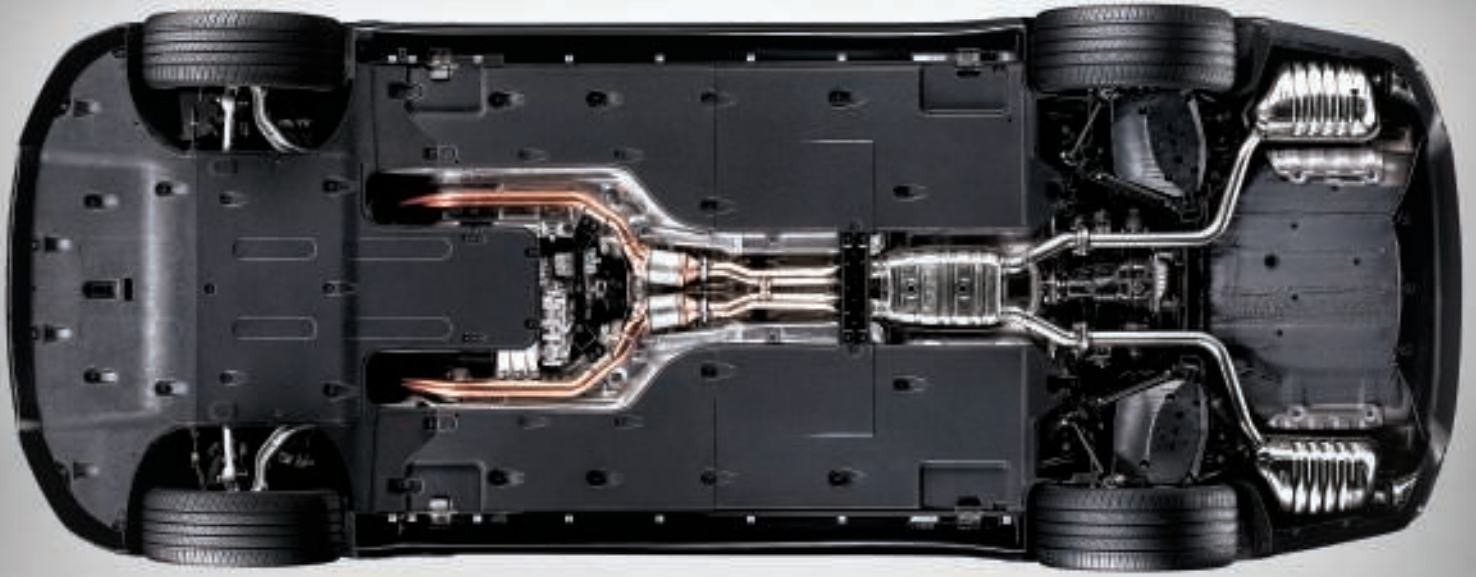


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